

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN**

In re)	
)	
)	Chapter 9
CITY OF DETROIT, MICHIGAN)	
)	Case No.: 13-53846
Debtor.)	
)	Hon. Steven W. Rhodes
)	
)	
)	

**CITY OF DETROIT’S OPPOSITION TO SYNCORA’S MOTION TO
EXCLUDE CERTAIN OF THE EXPERT OPINIONS OF MARTHA
KOPACZ UNDER FEDERAL RULE OF EVIDENCE 702**

The City of Detroit (the “City”) opposes the Motion to Exclude Certain Of The Expert Opinions Of Martha Kopacz (the “Motion”) (Docket # 6999) filed by Syncora Capital Assurance Inc. and Syncora Guarantee Inc. (“Syncora”). In support of its Opposition, the City states as follows:

INTRODUCTION

1. Syncora recognizes that the Court-appointed expert, Martha Kopacz, “is a well-respected and deeply-experienced restructuring professional.” Mot. ¶ 1. Syncora lauds Ms. Kopacz’s “extensive” expertise and experience spanning “participation in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks, and Chapter 11 Trustees, many of which are very prominent.” *Id.*

2. Syncora further acknowledges that Ms. Kopacz “approached her assignment as the Court’s feasibility expert in an industrious manner.” *Id.* ¶ 2. Syncora even expresses “full agreement” with “many” of Ms. Kopacz’s “observations and insights.” *Id.*

3. Syncora’s praise of Ms. Kopacz is well-founded. The Court sought an expert with “outstanding qualifications” in municipal finance, budgeting, and planning who “[i]s able to give an opinion that is based on sufficient facts or data and that is the product of reliable principles and methods and the application of those principles and methods to the case.” Order Regarding the Solicitation of Applications (Docket #3610). And Ms. Kopacz fit the bill: she has extensive practical experience with “financially or operationally troubled entities,” including her long-running engagement with the Nassau County Interim Finance Authority (whose annual budget approached \$3 billion) to assess the accuracy of the County’s financial forecasts and to conduct an in-depth review of the County’s business operations. Kopacz Dep. at 37, 39, 149 (Ex. A); Report at Ex. 1 (Ex. B). She also has been involved in major restructuring and financial forecasting efforts across the country. *Id.*; Kopacz Dep. at 150-53 (Ex. A).

4. The Court appointed Ms. Kopacz from among a pool of many well-qualified applicants, and directed her to “investigate and reach a conclusion on: (a) Whether the City’s plan is feasible as required by 11 U.S.C. § 943(b)(7); and (b)

Whether the assumptions that underlie the City’s cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable.” Order Appointing Expert Witness (Docket #4215).

5. Ms. Kopacz and her team diligently pursued and accomplished this task. Ms. Kopacz and her team “conducted more than two hundred interviews and fact gathering meetings” with stakeholders and other individuals with pertinent knowledge, including elected and appointed officials, the City’s Emergency Manager, City employees, retained advisors, and counsel for creditors, among others. Report at 4, 10 (Ex. B); Kopacz Dep. at 24-25 (Ex. A). The team analyzed documents relevant to the City’s plan and financial projections, as well as City data and third-party information, to obtain additional background and perspective on the City’s finances. Report at 4 (Ex. B). The team “thoroughly reviewed” each of the City’s financial forecasts and “worked with the City and its professionals to understand how each of these documents bridge to one another.” *Id.* at 31, 37. The team followed review of this information with additional questions and requests for information from the City, its advisors, and other stakeholders. *Id.* at 5. By the end of this iterative process, Ms. Kopacz’s team obtained and reviewed tens of thousands—possibly “hundreds of thousands”—of documents relevant to the City’s plan. *See id.* at Ex. 2; Kopacz Dep. at 20 (Ex. A).

6. In addition to information gathering, Ms. Kopacz and her team conducted an extensive analytical review of the methodology and assumptions underlying the City's financial projections. Report at 4-5 (Ex. B). The team developed an "intimate understanding" of the City's forecasting models (Kopacz Dep. at 42, 112-13 (Ex. A)), which enabled them to assess the reasonableness of the City's assumptions, calculations, and results (*id.* at 188-90, 253-54). The team "independently verif[ied]" revenue projections through "third-party sources of data" (*id.* at 177), and "reviewed and looked at every line item" and "every cell of every model" underlying the City's Plan (*id.* at 51). Rather than "simply accept the credibility of" the City's assumptions (*id.* at 48), Ms. Kopacz explained that her team expended "an enormous amount of time ... checking the [the City's] model." *Id.* at 111. Ms. Kopacz rounded out her quantitative evaluation with a qualitative assessment of the City's ability to meet its obligations under the Plan. *See, e.g.*, Report at 201-03 (Ex. B).

7. Based on this "multifaceted" assessment, Ms. Kopacz concluded that the Plan is feasible and that its underlying financial projections are reasonable. *See id.* at 10. Her 226-page expert report sets forth in careful and thorough detail the bases for these conclusions.

8. In its Motion, Syncora purports not to seek to exclude Ms. Kopacz's opinion that the City's Plan of Adjustment is feasible. *See* Mot. ¶ 26 n.45. Instead,

Syncora moves to exclude her opinions “regarding the City’s forecasts and underlying assumptions.” Mot. ¶ 12. But Syncora cannot seriously suggest that the Court could accept Ms. Kopacz’s bottom-line conclusion on feasibility without accepting any of her reasoning. Because the Plan’s feasibility depends upon the reasonableness of the City’s underlying financial forecasts, Syncora cannot artificially separate Ms. Kopacz’s feasibility opinion from her opinions on reasonableness. In all events, Syncora’s attacks on Ms. Kopacz’s reasonableness opinions are baseless—and fundamentally confuse admissibility with the weight afforded to an expert opinion.

ARGUMENT

9. Federal Rule of Evidence 702 governs the admission of expert testimony. Under Rule 702, courts enjoy broad discretion over whether to admit expert testimony. *See Gross v. Commissioner*, 272 F.3d 333, 339 (6th Cir. 2001). This discretion “is at its zenith during a bench trial.” *United States v. Kalymon*, 541 F.3d 624, 636 (6th Cir. 2008); *United States v. Demjanjuk*, 367 F.3d 623, 633 (6th Cir. 2004) (the court’s discretion “is particularly broad in a bench trial”) (citation omitted). In fact, the Sixth Circuit has explained that the Court’s traditional “gatekeeping” role “is *largely irrelevant* in the context of a bench trial.” *Deal ex rel. Deal v. Hamilton Cnty. Bd. of Educ.*, 392 F.3d 840, 852 (6th Cir. 2004) (emphasis added).

10. The court's "substantial flexibility" under these circumstances allows it, for example, to admit "proffered expert testimony at the front end" and only decide later "during the course of trial whether the evidence meets the requirements of *Kumho Tire Co.* and *Daubert* and deserves to be credited." *Gonzales v. Nat'l Bd. of Med. Exam'rs*, 225 F.3d 620, 635 (6th Cir. 2000); *see also Fierro v. Gomez*, 865 F. Supp. 1387, 1395 n.7 (N.D. Cal. 1994), *vacated on other grounds sub nom. Fierro v. Terhune*, 147 F.3d 1158 (9th Cir. 1998) ("Under *Daubert*, the court concludes that the better approach in this bench trial is to admit the testimony of all of the recognized experts that it permitted to testify and ... allow [v]igorous cross-examination, presentation of contrary evidence and careful weighing of the burden of proof to test shaky but admissible evidence." (internal citation and quotation marks omitted)).

11. Syncora ignores these principles entirely, but they confirm the absence of any reason to exclude Ms. Kopacz's opinions before trial has even begun. Because the exclusion of expert testimony is in all cases "the exception rather than the rule," Fed. R. Evid. 702 advisory committee's notes, 2000 amend., the Court should allow Ms. Kopacz to testify and reserve its decision whether to credit her opinions until they have been offered and vetted in open court.

12. But even if the Court were inclined to resolve the issue now, Syncora's arguments furnish no basis for excluding Ms. Kopacz's testimony.

First, Ms. Kopacz’s extensive experience amply qualifies her to offer her opinions on the reasonableness of the City’s financial assumptions. *Second*, Ms. Kopacz diligently completed the task the Court assigned her. *Third*, Ms. Kopacz applied a reliable methodology to support her conclusion that the City’s assumptions are reasonable. The Court should thus deny Syncora’s Motion and admit Ms. Kopacz’s reliable and helpful testimony.

I. Ms. Kopacz Is Well-Qualified To Offer Her Opinions On The Reasonableness Of the City’s Financial Assumptions

13. Syncora concedes that Mr. Kopacz is qualified generally in the area of “restructuring,” but claims that she lacks the necessary qualifications to offer opinions on the reasonableness of the City’s assumptions. The gravamen of Syncora’s argument is that Ms. Kopacz does not have sufficiently specialized experience in (1) forecasting revenues and expenses for a municipality in a Chapter 9 bankruptcy or (2) opining on the feasibility or reasonableness of the City’s forecasts in this case.

14. This argument is a non-starter. Courts regularly reject efforts to exclude an expert by narrowly defining the relevant area of expertise. *See, e.g., Ulico Cas. Co. v. Clover Capital Mgmt., Inc.*, 217 F. Supp. 2d 311, 317 (N.D.N.Y. 2002) (“The law does not insist on such narrow qualifications.”); *TC Sys. Inc. v. Town of Colonie*, 213 F. Supp. 2d 171, 174 (N.D.N.Y. 2002) (noting that even the lack of extensive experience “directly on point does not necessarily preclude [an]

expert from testifying” (internal citation and quotation marks omitted)). A witness could thus testify, for example, as an expert in “threat assessment” in a case involving a bus accident, even though the witness had no experience analyzing threats in the bus industry. *See Surles v. Greyhound Lines, Inc.*, 474 F.3d 288, 293-94 (6th Cir. 2007).

15. Indeed, the standard for expert qualification is not onerous. Expert testimony is appropriate whenever its subject “is unlikely to be within the knowledge of the average layman,” *United States v. Carson*, 702 F.2d 351, 369 (2d Cir. 1983). Moreover, “[t]he text of Rule 702 expressly contemplates that an expert may be qualified on the basis of experience.” *United States v. Cunningham*, 679 F.3d 355, 378–79 (6th Cir. 2012) (citation omitted). “Whether a proposed expert’s experience is sufficient to qualify the expert to offer an opinion on a particular subject depends on the nature and extent of that experience.” *Id.* at 379.

16. Here, the “nature and extent” of Ms. Kopacz’s qualifications far exceed the demands of Rule 702. Not only does she possess highly relevant education in business and certifications in the area of insolvency and restructuring, she has tremendously useful practical experience with financial forecasting and municipal budgeting. While Ms. Kopacz has not personally constructed *municipal*

forecasts (Kopacz Dep. at 149 (Ex. A)),¹ she does have experience assessing their accuracy—which is, after all, the precise nature of her Court-ordered task here. *See* Report at 1 (Ex. B); Kopacz Dep. at 151-53 (Ex. A).

17. Ms. Kopacz’s other relevant background experience includes (1) reviewing municipal budgets, (2) performing departmental audits for municipalities, (3) participating in over 100 consulting and restructuring engagements, including on behalf of debtors, (4) lecturing and publishing on municipal bankruptcy and restructuring, and (5) testifying as an expert witness about (i) a variety of insolvency and restructuring issues, and (ii) the appropriateness of a forecasting methodology and its underlying assumptions. *See* Notice Regarding Interviews of Expert Witness Applicants, at 226-54 (Docket #4068); Kopacz Dep. at 37-40, 129-30 (Ex. A). This and other experience with distressed organizations more than qualifies her to offer the opinions in her report. *See, e.g., Mannino v. Int’l Mfg. Co.*, 650 F.2d 846, 850 (6th Cir. 1981) (noting that an expert need not have complete knowledge about the field in question); *In re Texans CUSO Ins. Grp., LLC*, 426 B.R. 194, 214 (Bankr. N.D. Tex. 2010) (“[T]estimony is admissible even when the expert possesses only general rather than specific experience with the subject matter.”); *Wechsler v. Hunt Health Sys., Ltd.*, 381 F. Supp. 2d 135, 143 (S.D.N.Y. 2003) (qualifying as an insolvency expert

¹ Ms. Kopacz has, however, prepared projections for *non-municipal* entities. *See, e.g.,* Kopacz Dep. at 37 (Ex. A).

a certified public accountant with seventeen years experience despite lack of prior experience in the health care industry or experience analyzing healthcare receivables).

18. To the extent Syncora believes otherwise, it can pursue the issue on cross-examination. *See McCulloch v. H.B. Fuller Co.*, 61 F.3d 1038, 1044 (2d Cir. 1995) (“Disputes as to the strength of [an expert’s] credentials . . . go to the weight, not the admissibility, of his testimony.”); *First Tenn. Bank Nat’l Ass’n v. Barreto*, 268 F.3d 319, 333 (6th Cir. 2001) (holding that a lending expert’s unfamiliarity with “some aspects” of lender-borrower relationships “merely affected the weight and credibility of his testimony, not its admissibility”); *VSI Holdings, Inc. v. SPX Corp.*, No. 03-cv-70225-DT, 2005 WL 5980804, at *10 (E.D. Mich. Apr. 12, 2005) (“If the expert lacked familiarity with some aspects of banking relationships, such unfamiliarity merely affect[s] the weight and credibility of the expert’s testimony, not its admissibility.”).

II. The Scope and Depth Of Ms. Kopacz’s Investigation And Analysis More Than Adequately Demonstrate The Reliability Of Her Opinions

19. Having no credible grounds to challenge Ms. Kopacz’s expertise, Syncora falls back to challenging Ms. Kopacz’s method for determining the reasonableness of the City’s assumptions. But each of Syncora’s four arguments wholly fails: Syncora misstates the record and the law, and it overlooks the hallmarks of reliability in Ms. Kopacz’s method and opinions.

A. Syncora’s Argument That Ms. Kopacz Failed To Individually Evaluate the City’s Assumptions Is Factually And Legally Flawed

20. Syncora first criticizes Ms. Kopacz’s report on the ground that she did “not attempt to evaluate the reasonableness of the vast majority of the City’s assumptions.” Mot. ¶ 31. But this argument rests on a highly distorted characterization of the extensive and careful work Ms. Kopacz performed.

21. In conducting her assignment, Ms. Kopacz “followed the outline contained in [her] proposal.” Report at 3 (Ex. B). There, Ms. Kopacz explained that she would “identify and analyze ... *critical* assumptions,” which she defined as “those assumptions, which if not achieved in amount or timing, could cause the Ten-Year Plan to fail to meet the payments required in the Plan of Adjustment.” Notice Regarding Interviews of Expert Witness Applicants, at 230, 256 (Docket #4068) (emphasis added). Since this is what the Court appointed her to do, it was entirely appropriate for Ms. Kopacz to focus her efforts on *critical* assumptions (Report at 3 (Ex. B)), rather than every conceivable assumption underlying the City’s forecasts. (Indeed, there is a nearly infinite regress of assumptions underlying each “critical” one). Syncora, however, makes no effort to distinguish between critical assumptions and others, but instead cherry-picks a handful of assumptions that Ms. Kopacz did not “independently” evaluate and sweepingly concludes that Ms. Kopacz’s opinions are inadmissible. Syncora’s broad-brush argument not only rests upon the false assumption that Ms. Kopacz needed to

assess *every* conceivable assumption, but also depends upon a mischaracterization of Ms. Kopacz's work.

22. To conclude that Ms. Kopacz did not evaluate "the vast majority of the City's assumptions" (Mot. ¶ 31), Syncora depends upon a blinkered reading of Ms. Kopacz's deposition. Syncora offers isolated snippets of deposition testimony to argue that Ms. Kopacz failed to complete her court-ordered task. Read in their totality, however, Ms. Kopacz's report and deposition testimony belie this claim.

23. In her deposition, Ms. Kopacz specifically indicated that she "investigate[d] and reach[ed] a conclusion" on the reasonableness of the City's assumptions. Kopacz Dep. at 15 (Ex. A). Ms. Kopacz looked at the "quantitative factors" in the City's plan, including "the mathematical accuracy of the projections," and evaluated the "reasonableness of the City's assumptions, both individually and as a group." *Id.* at 31-32. As Ms. Kopacz's explained, she and her team "reviewed and looked at *every* line item, *every* cell of *every* model." *Id.* at 51 (emphasis added). Ms. Kopacz repeated this point throughout her deposition. *See, e.g., id.* at 48 ("I reached a conclusion on the reasonableness of [Ernst & Young's] assumptions."); *id.* at 111 (noting that her team spent "an enormous amount of time in understanding and checking the model"); *id.* at 160 (noting that she performed "trend analysis with respect to the City's forecasts"); *id.* at 174 ("I looked at -- I used all the information that was available to me and all the people

that were available to me and -- got satisfied with the projections in the plan as being reasonable revenue projections.”); *id.* at 188 (“So, looking at the assumptions, looking at the input, looking at how those were mathematically manipulated and what the output was and assessing whether or not that was reasonable, is the approach that I used to fulfill my responsibilities as part of this -- this appointment.”).

24. Syncora fails to bring this testimony to the Court’s attention, instead inviting the Court to assume that the absence of a specific reference to “reasonableness” for each assumption means Ms. Kopacz did not consider the issue at all. Mot. ¶ 33. While the testimony Syncora relies upon to make this claim related only to cost assumptions, Syncora sweeps in *revenue* assumptions as well. *See id.* ¶ 34 & n.61. But, again, the record says otherwise. *See Report* at 200 (Ex. B) (“It is my opinion that, except where otherwise noted in my Report, the individual assumptions used to build the projections fall into a reasonable range and, that when taken as a group, these assumptions are also reasonable.”). Moreover, in her deposition, Ms. Kopacz expressly indicated that she reviewed *every* revenue source within the City and assessed whether “each” was reasonable. Kopacz Dep. at 184-85 (Ex. A) (“We looked at all the revenues that were presented in the plan of adjustment projections.... I looked at each revenue stream and assessed whether I thought the City’s forecast or projection of that revenue

was reasonable.”); *id.* at 116 (“I don’t think that there was any revenue stream of a recurring nature that we didn’t study.”). And Ms. Kopacz never intended her report to exhaustively reflect all of the work she performed. *See* Report at 11 (Ex. B) (“My intent is not to rehash every issue or pleading ... but rather, to highlight a few aspects of the facts and circumstances of this case which have had an important impact on the formulation of my opinion.”); *id.* (“By no means does this Report include every factor I reviewed or considered.”). Ms. Kopacz necessarily condensed into a couple hundred pages the process and results of months of work, hundreds of interviews, review of tens of thousands of documents, and exacting analysis of the City’s forecasts. Syncora’s assertions about what assumptions Ms. Kopacz failed to test are inaccurate and misleading.

25. Syncora also omits key language in Ms. Kopacz’s deposition that further undermines its characterization of her work. Ms. Kopacz explained, for example, that she evaluated the reasonableness of the City’s assumptions for “each” Restructuring and Reinvestment Initiative (RRI). Kopacz Dep. at 61 (Ex. A). More generally, Ms. Kopacz explained that she did not “simply accept the credibility of the Ernst & Young assumptions,” but “did [her] own checking of them.” *Id.* at 48. For income tax, Ms. Kopacz “looked at historical information” and “statewide information from various parties,” in addition to “interview[ing] the team at Ernst & Young who did the analysis and the development of these

projections.” *Id.*; *see also id.* at 235-39 (discussing “historical data of taxable income”). According to Ms. Kopacz, this embodied her “general approach” with “other types ... of revenue items” and “items of expense.” *Id.* at 49. With regard to wagering tax revenues, Ms. Kopacz had conversations with Ernst & Young and evaluated the “long-term trends” relating to those revenues. *Id.* at 76. And with wage growth, Ms. Kopacz assessed “all of the individual assumptions” (*id.* at 254), and reviewed both historical data and “comparable metrics from the Michigan Department of Treasury, the Michigan Senate Fiscal Agency and the [Congressional Budget Office].” *Id.* at 257-58; Report at 47-48 (Ex. B).

26. But the foregoing are just a few examples mentioned in Ms. Kopacz’s deposition. In the report itself, the true extent of her work comes into sharper focus. In a list too lengthy to recount here, Ms. Kopacz detailed the meetings she conducted concerning the City’s financial assumptions. She regularly met with individuals from Ernst & Young—who assisted with the City’s forecasting models—and a broad swath of City officials and departmental heads. Report at Ex. 3 (Ex. B). The entire point of these meetings was to test the assumptions underlying the City’s forecasts. Indeed, by the end of this process, Ms. Kopacz and her team had reviewed “every line item” and “every cell of every model” underlying the City’s Plan. Kopacz Dep. at 51 (Ex. A).

27. Exhibit 2 of Ms. Kopacz's report tells a similar story. It identifies the tens of thousands of documents that Ms. Kopacz and her team reviewed in assessing the City's financial assumptions. Contrary to Syncora's suggestion, Ms. Kopacz did not simply accept the City's assumptions as gospel, but undertook the herculean efforts necessary to vet them.

28. In fact, even in some instances where Syncora's counsel elicited an admission that Ms. Kopacz did not individually assess a particular assumption, context suggests that Ms. Kopacz did in fact evaluate the finding, or determined that such an evaluation was unnecessary. Ms. Kopacz stated, for instance, that she did not make a "specific finding" that two particular assumptions regarding employment growth were reasonable. Kopacz Dep. at 265-66 (Ex. A). Immediately after this, however, Ms. Kopacz stated:

A. I did not make a specific finding about 2.16 or any of that sort of thing. What I did is, as I said before, I looked at all the information that was available to us, historical, projections, talked with people who did this, looked at other people who make projections about these things. I did the sensitivity analysis that said what if they're off by a percentage point one way or another, what does that do? Okay? And in totality of looking at all of that stuff, I concluded that this is a reasonable assumption for, in this case, municipal income tax.

Id. at 266-67.

29. Elsewhere, Ms. Kopacz offered a similar explanation about her work:

A. I looked at all of the information that was available, okay, about all of these topics, all of these assumptions, both the revenue side and the expense side. I looked at the recent tax history. I talked to the people who made the

assumptions, asked them questions about how they came up with this assumption or that assumption or what they did and, you know, how much if you changed this, how much would that change. Okay? And concluded that, in totality, the estimates contained in the projections provide a reasonable basis for forecasting what the City is going to do from an economic perspective during the life of this -- these projections.

Id. at 253-54.

30. As the foregoing illustrates, Ms. Kopacz's work was thorough, and she acted well-within her prerogative as an expert in the field of municipal finance to determine how far she needed to drill down in individually assessing assumptions underlying the City's forecasts. Given Ms. Kopacz's extensive experience, qualifications, and searching review of the City's finances, it was hardly unreasonable for her to credit certain discrete assumptions without an independent investigation. *Cf. In re "Agent Orange" Product Liab. Litig.*, 611 F. Supp. 1223, 1245 (E.D.N.Y. 1985), *aff'd*, 818 F.2d 187 (2d Cir. N.Y. 1987) ("The expert is assumed, if he meets the test of Rule 702, to have the skill to properly evaluate the hearsay, giving it probative force appropriate to the circumstances."). Ms. Kopacz could legitimately accept, for instance, population forecasts from the Southeast Michigan Council of Governments (Kopacz Dep. at 273 (Ex. A)) or unemployment levels in the City (*id.* at 145) without personally conducting a door-to-door survey among the City residents.

31. By the end of her investigation and despite the inherent constraints, Ms. Kopacz reported that she had "a great deal of confidence in [her] opinions"

and that there were no conclusions or analysis she would change. *Id.* at 28-29; *see also id.* at 114 (“But for the most part, I am satisfied with our ability to evaluate what all the information that was available and meet with the people that were available and do what we needed to do.”). Ms. Kopacz reaffirmed this conviction even after Syncora’s cross-examination of her at her deposition: “I’m still really comfortable with what we did, given the scope of our assignment, given the best information available. And I really haven’t changed any of my thoughts in the last day and a half.” *Id.* at 515. While Syncora is free to challenge Ms. Kopacz’s decisions made in the course of her investigation on cross-examination at trial, they furnish no basis for *excluding* Ms. Kopacz’s opinions here. *See, e.g., United States v. L.E. Cooke Co.*, 991 F.2d 336, 342 (6th Cir. 1993) (“any weaknesses in the factual basis of an expert witness’ opinion, including unfamiliarity with standards, bear on the weight of the evidence rather than on its admissibility”) (citing *Davis v. Combustion Engineering, Inc.*, 742 F.2d 916, 919 (6th Cir.1984) and *Upjohn Co. v. Rachelle Laboratories, Inc.*, 661 F.2d 1105, 1112 (6th Cir. 1981)).²

² In its background section, Syncora repeatedly asserts that Ms. Kopacz did not receive cooperation from the City or Jones Day, thus hindering her efforts. *See* Mot. ¶ 5, 16. This is simply incorrect. *First*, while Ms. Kopacz indicated that her team’s relationship with Ernst & Young and Conway became “frayed” (Kopacz Dep. at 379 (Ex. A)), she did not attribute this to the City or Jones Day. Moreover, Syncora omits Ms. Kopacz’s testimony that the “frayed” relationships resolved themselves. *See, e.g., id.* at 380 (noting that they “had largely worked out” their “issues” and “differences”). *Second*, Exhibits 2 and 3 of Ms. Kopacz’s report belie Syncora’s assertion that the City withheld information. Exhibit 2 shows, for

B. Independent Verification of Data Relates to Weight, Not Admissibility, of Expert Testimony

32. Syncora's next argument—that Ms. Kopacz's opinions are inadmissible because “she failed to test the data underlying the City's projections and forecasts” (Mot. ¶ 36)—fares no better. In addition to being factually inaccurate, this argument has no bearing on the admissibility of Ms. Kopacz's opinions.

33. Contrary to Syncora's sweeping assertions, Ms. Kopacz *did* independently verify a considerable amount of the City's data. *See, e.g., supra*, ¶¶ 6, 7 & 23. For example:

A. I -- I wouldn't go so far as to say we didn't independently verify because we did, specifically on the revenue projections and things surrounding those, we did seek other third-party sources of data. So --

Q. There were instances where you sought some form of corroboration?

A. Separate and apart from the City.

example, that Ms. Kopacz had access to the City's entire document production. Similarly, Exhibit 3 reveals a vast number of meetings with City officials, the very purpose of which was the provision of information. Although a handful of requests for materials remained outstanding when Ms. Kopacz filed her report, they are dwarfed by the hundreds of documents the City and its advisors provided Ms. Kopacz and her team. Exhibit 3 to Kopacz Dep. (Ex. C). *Finally*, Ms. Kopacz explicitly testified that even though some information requests remained outstanding, she was “able to work around the absence of these materials” and was “still able to reach an opinion” that she had “a great deal of confidence” in. Kopacz Dep. at 22, 28 (Ex. A); *see also id.* at 515 (“I'm still really comfortable with what we did, given the scope of our assignment, given the best information available.”).

Kopacz Dep. at 177 (Ex. A); *see also id.* at 51 (Ms. Kopacz “reviewed and looked at every line item, every cell of every model” underlying the City’s Plan); *id.* at 104-05 (testifying that the data in the City’s comprehensive annual financial reports were “reliable”); *id.* at 256 (Ms. Kopacz and her team looked at “forecasts made by other forecasting entities ... to analyze and assess the forecasts for wage growth and for employment growth that the City used”).

34. Syncora’s argument is legally flawed as well. Syncora assumes that, to satisfy Rule 702, Ms. Kopacz had a duty to independently verify all of the data underlying the City’s forecasts. As an initial matter, the Court never requested Ms. Kopacz to independently verify all of the City’s data. *See id.* at 572-73; Order Appointing Expert Witness (Docket #4215). Nor does Syncora offer any reason to conclude that independent verification is a predicate to the admissibility of her testimony under Rule 702. Nor could it: Rule 703 expressly contemplates that experts will rely “on facts or data ... that the expert has been made aware of” but not “personally observed.” FED. R. EVID. 703. As long as an expert’s opinions are not based on “mere guess or speculation” but find “some support ... in the record,” the Sixth Circuit maintains that they should not be excluded because of alleged problems in the underlying data. *In re Scrap Metal Antitrust Litig.*, 527 F.3d 517 (6th Cir. 2008); *see also United States v. Martinez*, 588 F.3d 301, 324 (6th Cir. 2009) (testimony need only be more than “unsupported speculation”).

35. In this case, Syncora never contends that Ms. Kopacz “merely pulled [her] numbers ... out of thin air” or that her assumptions find no support in the record. *In re Scrap Metal Antitrust Litig.*, 527 F.3d at 531; *see also* Kopacz Dep. at 176-77 (Ex. A) (Ms. Kopacz relied on “the assimilation of data that the other professionals had acquired” to “help get us to the best data that was out there”). Syncora instead asserts that *some* of the City’s data are “unreliable” and that *some* are “inconsistent with other information available to the City.” Mot. ¶ 39. But these contentions regarding *the City’s* data have no bearing on the admissibility of *Ms. Kopacz’s* opinions. *See, e.g., In re Scrap Metal Antitrust Litig.*, 527 F.3d at 529 (contention that expert used “erroneous data” went to “credibility and accuracy,” not “reliability”); *Quiet Tech. DC-8, Inc. v. Hurel-Dubois UK Ltd.*, 326 F.3d 1333, 1345 (11th Cir. 2003) (argument that “the specific numbers [the expert] used were wrong” impugned “the accuracy of his results, not the general scientific validity of his methods”). Indeed, courts afford experts broad latitude in deciding what data they will rely upon in forming their opinions. *See, e.g., United States v. Seale*, 600 F.3d 473, 491 (5th Cir. 2010) (*Daubert* affords experts “wide latitude in choosing what data they rely on in forming their opinions”); *JMJ Enters., Inc. v. Via Veneto Italian Ice, Inc.*, No. Civ. A. 97-CV-0562, 1998 WL 175888, at *6 (E.D. Pa. Apr. 15, 1998) (“[Experts] are granted wide latitude in determining what data is needed to reach a conclusion.”); *Sudbeck v. Sunstone Hotel Props., Inc.*,

No. 2:04-CV-1535, 2006 WL 2728624, at *4 (D. Ariz. July 26, 2006) (similar). Syncora's arguments thus furnish, at most, fodder for cross-examination. *See United States v. L.E. Cooke Co.*, 991 F.2d 336, 342 (6th Cir. 1993) (the duty falls upon "opposing counsel to inquire into the expert's factual basis" in cross-examination."); *Quiet Tech. DC-8, Inc.*, 326 F.3d at 1345 ("The identification of such flaws in generally reliable scientific evidence is precisely the role of cross-examination.").

C. *Daubert's* Testability Factor Is Inapplicable To Ms. Kopacz's Opinion

36. Syncora further contends that Ms. Kopacz's opinions are inadmissible because they are allegedly not testable. Mot. ¶¶ 40-44. Even if this were true, the lack of testability is not, under the circumstances, a basis for excluding her testimony.

37. The reliability determination under Rule 702 is a flexible inquiry. *See Surles*, 474 F.3d at 295. As the Sixth Circuit has explained, "the law grants a district court the same broad latitude when it decides *how* to determine reliability as it enjoys in respect to its ultimate reliability determination." *Id.* (emphasis added).

38. While "testability" numbers among *Daubert's* factors for assessing reliability, courts have no obligation to reflexively apply those factors in every circumstance. *See, e.g., id.* ("district courts need not adhere to those enumerated

factors”); *In re Scrap Metal Antitrust Litig.*, 527 F.3d at 529 (*Daubert* factors are not a “definitive checklist or test”). To the contrary, courts should apply *Daubert* factors *only* “where they are reasonable measures of the reliability of expert testimony.” *Id.* (quoting *Gross v. Comm’r*, 272 F.3d 333, 339 (6th Cir. 2001)) (emphasis added). In the context of non-scientific expert testimony, this often means the *Daubert* factors will have little, if any, application. *See Barreto*, 268 F.3d at 334 (*Daubert* factors “may be of limited utility in the context of non-scientific expert testimony.”); *Am. Gen. Life Ins. Co. v. Schoenthal Family, LLC*, 555 F.3d 1331, 1338 (11th Cir. 2009) (“Standards of scientific reliability, such as testability and peer review, do not apply to all forms of expert testimony.”).

39. Here, given the subject-matter of Ms. Kopacz’s testimony, the “testability” factor is patently unhelpful. The Court directed Ms. Kopacz to assess the *reasonableness* of the City’s financial forecasts and assumptions. Order Appointing Expert Witness (Docket #4215). How the Court would even apply “testability” to an inquiry on this subject is unclear. For one thing, “reasonableness” is not a term of scientific or mathematical precision but, as Ms. Kopacz explained, represents a “range of values” and “exist[s] along a continuum.” Report at 18 (Ex. B). “Projections can be reasonable and favor the views of the debtor and projections can be reasonable and favor the views of creditors.” *Id.* As this suggests, “reasonableness” entails an element of judgment that does not lend

itself to scientific testing. For another, financial forecasting itself is “less than an ‘exact science.’” *Brown v. Brewer*, 2010 WL 2472182, at *27 (C.D. Cal. June 17, 2010). Like valuation, it entails “[e]stimations, predications, and inferences based on professional judgment and experience,” *id.*, and it does not allow for “mathematical certitude,” *Protective Comm. v. Anderson*, 390 U.S. 414, 442 (1968). Given these realities, concepts like “testability” are “simply not applicable” here. *Hangerter v. Provident Life & Accident Ins. Co.*, 373 F.3d 998, 1017 (9th Cir. 2004).

40. Unsurprisingly, Syncora offers no explanation of how the Court could even apply the *Daubert* testability factor. Instead, Syncora warns that the inability to subject Ms. Kopacz’s conclusions to scientific testing means the Court must “simply accept [her] opinions at face value.” Mot. ¶ 44. This is incorrect. Courts regularly assess the reliability of non-scientific testimony based on a variety of other factors, including the expert’s “knowledge or experience,” without resorting to testability. *Barreto*, 268 F.3d at 335; *Brown*, 2010 WL 2472182, at *27. This comports with the trial judge’s “broad latitude to determine” whether *Daubert* factors “are, or are not, reasonable measures of reliability in a particular case.”

Barreto, 268 F.3d at 335. This Court thus has no obligation to apply the testability factor, let alone accord it dispositive weight.³

D. Failure To Conduct Additional “Sensitivity Analyses” Does Not Affect Admissibility

41. Finally, Syncora contends that Ms. Kopacz’s testimony should be excluded because she performed “limited ‘sensitivity analyses.’” Mot. ¶ 45. Once again, Syncora’s argument is legally and factually flawed.

42. Syncora does not dispute that Ms. Kopacz performed a considerable number of sensitivity analyses. Syncora instead faults Ms. Kopacz for failing to conduct a single *type* of sensitivity analysis (multi-variable) concerning a particular issue (the effect of “a change in Detroit’s economy”). Mot. ¶¶ 47, 49. But Syncora offers no reason to conclude that this tarnishes the *reliability* of Ms. Kopacz’s methodology. *Cf. In re Linerboard Antitrust Litig.*, 497 F. Supp. 2d 666, 687 (E.D. Pa. 2007) (unless a party challenging the admissibility of a regression analysis can show that “an omitted variable ... is likely to affect the result of the

³ Syncora also criticizes Ms. Kopacz for allegedly admitting that “there are no standard forecasting methodologies.” Mot. ¶ 43. As an initial matter, Ms. Kopacz testified that there are “groups that are trying to promulgate a set of standards for municipalities in these areas” but, in her view, “there’s nothing that is *as uniform and acknowledged* as we have with generally accepted accounting principles.” Kopacz Dep. at 155 (Ex. A) (emphasis added). While Dr. Cline referenced a “standard methodology” for forecasting tax revenues (Syncora Ex. 6D, Cline Dep. at 47), this does not necessarily conflict with Ms. Kopacz’s view that standards exist but are not “as uniform” as general accounting principles. In any event, this conflict in testimony—if it is one at all—relates to weight of the experts’ opinions, not their admissibility.

regression analysis,” it will not be excluded). Nor does Syncora cite any evidence that experts in Ms. Kopacz’s field would even perform multi-variable sensitivity analyses in these circumstances. Ms. Kopacz testified that she was unaware of any “mathematical or forecasting rule[s]” for “offsetting variations” (Kopacz Dep. at 56-57 (Ex. A)) and that sensitivity analyses are generally “done around a single variable.” *Id.* at 97.

43. Regarding “the *likelihood* that deviations from the City’s forecasts may actually happen” (Mot. ¶ 50), Syncora again offers no reason to suspect that experts in municipal forecasting invariably evaluate the likelihood of deviations, or how absence of such analysis here would affect Ms. Kopacz’s bottom-line conclusions.

44. In any event, Ms. Kopacz’s analysis *did* consider the possibility of multiple deviations from the City’s forecasts. Ms. Kopacz specifically concluded that even though both long-term and short-term forecasts “are going to be wrong,” there will “be enough variation in the forecast both plus and minus that on average things will be okay.” Kopacz Dep. at 56 (Ex. A); *see also id.* at 126 (“variabilities” are “necessarily going to happen”). She explained that because there are “offsetting entries and offsetting variations,” deviations from the City’s forecasts would not necessarily upset her conclusions. *Id.* This conclusion was bolstered by the City’s contingencies, the very purpose of which is to “balance off

the positive and the negative variances” in a forecast model. *Id.* at 81; *see also id.* at 95 (“I’m saying taken as a whole -- the projections with all of the conservative and aggressive assumptions taken as -- as a whole are reasonable.”); *id.* at 222 (“A. I don’t believe for a minute that the projections will come in exactly as they’ve been forecast. Q. I understand. But in the aggregate, you would not have rendered your opinion if you believed a material risk of failure existed, correct? A. Correct.”); Report at 200-01 (Ex. B) (“I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption concerning the level of contingencies.”). Moreover, Ms. Kopacz specifically noted that the City’s projections had not “accounted for any significant economic disruptions similar to those experienced recently during the Great Recession.” *Id.* at 193. It is thus unclear why Ms. Kopacz had an independent obligation to do so for them (*contra* Mot. ¶¶ 47-48).

45. But even if Ms. Kopacz had not considered the multiple-deviation issue, Syncora’s argument would relate solely to weight, not to the admissibility, of Ms. Kopacz’s opinion. *See, e.g., Quiet Tech. DC-8, Inc.*, 326 F.3d at 1345 (“[I]n most cases, objections to the inadequacies of a study are more appropriately considered an objection going to the weight of the evidence rather than its admissibility.” (internal citation and quotation marks omitted)); *Cummings v. Standard Register Co.*, 265 F.3d 56, 65 (1st Cir. 2001) (holding that “whatever

shortcomings existed in [the expert's] calculations went to the weight, not the admissibility, of the testimony"); *In re Toyota Motor Corp. Unintended Acceleration Mktg., Sales Practices, & Prods. Liab. Litig.*, 978 F. Supp. 2d 1053, 1070 (C.D. Cal. 2013) ("Plaintiff's arguments about other sources that Dr. Cassini could have consulted and alternative explanations he could have considered go to weight, not admissibility." (internal citations omitted)).

III. Ms. Kopacz's Assessment Of The Reasonableness Of The City's Assumptions Is Reliable And Therefore Admissible

46. Unable to seriously dispute that Ms. Kopacz completed the task as the Court framed it, Syncora next suggests that the work she performed was not reliable. Syncora offers a grab-bag of alleged deficiencies: Ms. Kopacz allegedly did not "examine the experience of the City's forecasting experts," "determine how bias and subjectivity may have affected the City's forecasts," "verify the data on which the forecasts were based," or determine "what methodology was used for the City's forecasts." Mot. ¶ 54. Syncora *never* asserts that the Court ordered these extraneous tasks, nor does it identify any basis for concluding that these sub-tasks were essential to the successful completion of her project.

47. The common thread in all of the alleged deficiencies is the suggestion that Ms. Kopacz failed to evaluate whether the City's process was reliable. But whether the City's *process* was reliable is logically distinct from whether its *assumptions* were reasonable, and the Court's direction to Ms. Kopacz was to

consider the reasonableness of the assumptions (Order Appointing Expert Witness (Docket #4215)). Nothing prevents an expert from evaluating the reasonableness of financial-forecasting assumptions without first learning who produced it or how they did it. *See* Kopacz Dep. at 188 (Ex. A) (“What was important to me was to assess the outcome of that estimate and whether or not that was reasonable.”). Although Ms. Kopacz did, in fact, examine the reliability of the City’s forecasting process, it would not have had a bearing on the admissibility of her opinions if she had failed to do so.

48. Tellingly, Syncora fails to cite a single authority to the contrary. Syncora also fails to furnish any reason for concluding that the identified sub-tasks were essential to the reliability of Ms. Kopacz’s opinions. As previously discussed, Ms. Kopacz’s experience in assessing municipal forecasts is extensive—and nothing in Syncora’s bald assertions that she should have done more precludes her from offering her opinions. Indeed, Ms. Kopacz had no obligation to *disprove* every conceivable negative influence on the City’s assumptions; she was only asked to evaluate their bottom-line reasonableness. While evidence of bias, faulty data, or questionable methodology that influenced the City’s projections could provide material for cross-examination, Ms. Kopacz’s “failure to account for all possible ... factors goes only to the weight, not the admissibility, of [her] testimony.” *Amway Global v. Woodward*, 744 F. Supp. 2d

657, 678–79 (E.D. Mich. 2010); *see also* *L.E. Cooke Co., Inc.*, 991 F.2d at 342 (“any weaknesses in the factual basis of an expert witness’ opinion, including unfamiliarity with standards, bear on the weight of the evidence rather than on its admissibility”).

WHEREFORE, the Court should deny Syncora’s Motion to Exclude Certain Of The Opinions Of Martha Kopacz.

Dated: August 27, 2014 Respectfully submitted,

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ATTORNEYS FOR THE CITY OF DETROIT

Exhibit A

1 - MARTI KOPACZ - VOLUME 1-

2 A. This appears to be the order
3 appointing me as the expert witness.

4 Q. Okay. Paragraph 2 of the order
5 specifies what the Court has asked you to do,
6 correct?

7 A. Yes, it does.

8 Q. And could you tell me what it is you
9 were instructed by the Court or asked by the Court
10 to do?

11 A. I was asked to investigate and reach
12 a conclusion on, A, whether the city plan is
13 feasible as required by 11 U.S.C. Section 943(b)(7),
14 and, B, whether the assumptions that underlie the
15 City's cash flow projections and forecasts
16 regarding its revenues, expenses, and plans are
17 reasonable.

18 Q. And does your report -- and did you
19 do that work?

20 A. I did that work.

21 Q. And does your report contain your
22 conclusions as a result of having done that work?

23 A. It does.

24 Q. Okay. So let me ask you a little bit
25 about the background of the report.

1 - MARTI KOPACZ - VOLUME 1-

2 assignment.

3 Q. Okay. Were there any other materials
4 you considered above and beyond those set forth in
5 Exhibit 2?

6 A. Not that I can think of.

7 Q. Is it possible for you to estimate as
8 you sit here today, if it were all printed, what
9 the physical volume would be of the materials
10 listed in Exhibit 2?

11 A. Tens of thousands, maybe hundreds of
12 thousands.

13 Q. Of pages?

14 A. A lot. A lot.

15 MR. STEWART: Let me mark as
16 Exhibit 3 this document.

17 (Whereupon, Kopacz Exhibit 3 was
18 marked at this time.)

19 (Whereupon, a brief discussion was
20 held off record.)

21 BY MR. STEWART:

22 Q. Ms. Kopacz, I'm placing before you
23 Exhibit 3. I represent to you this is a document
24 from Jones Day listing the materials that were
25 provided by the City of Detroit to Phoenix. This

1 - MARTI KOPACZ - VOLUME 1-

2 is a spreadsheet that Jones Day has updated as we
3 went along.

4 Have you seen versions of Exhibit 3
5 before?

6 A. I have not.

7 Q. You have not. Are you aware that
8 versions of it were given to members of your team
9 as the project went along?

10 A. I'm not sure I understand that
11 question.

12 Q. Do you know whether anyone from your
13 team has seen this document or versions of it?

14 A. Not that I know of.

15 Q. Okay. Let's go to Exhibit 4 of
16 your -- of your report. Do you have Exhibit 4
17 before you?

18 A. I do.

19 Q. And what does Exhibit 4 set forth?

20 A. Exhibit 4 sets forth the open
21 information requests as of the date of my report.

22 Q. Okay. Your report was, what, the
23 25th?

24 A. July 18th.

25 Q. July 18th. Have some of these

- MARTI KOPACZ - VOLUME 1-

materials since July 18th been provided to you?

A. I don't think so. I don't think so.

Q. Okay. Do you know for a fact that all of these materials, in fact, exist?

A. I do not know that.

Q. Has the absence of these materials affected your analysis in any way?

A. The -- some of the requests here I would still like to receive.

Q. Sure.

A. Because it would -- obviously, I asked for it because I thought it was -- would be helpful and it would be more information.

I reached my opinion on the information I had so, you know, I don't know how to answer that. In the sense of yes, I'd still like to have them, but --

Q. Sure.

A. -- I didn't have it and I was still able to reach an opinion.

Q. In other words, you were able to work around the absence of these materials?

A. I did.

Q. Okay. Exhibit 3 of your report

1 - MARTI KOPACZ - VOLUME 1-

2 contains a list of all the meetings that you and
3 others at Phoenix held. Am I correct on that?

4 A. This is the contact log that the
5 Judge asked me to keep. I, in turn, then asked my
6 team to keep a contact log as well.

7 Q. Okay.

8 A. So, it's -- there really are kind of
9 two sections to it. One is all of the contacts
10 that I was involved in and then the second part of
11 it is contacts that team members had that I wasn't
12 involved in.

13 Q. Okay.

14 A. And it could -- it could be phone
15 calls, it could be e-mails. Most of them are
16 face-to-face meetings.

17 Q. Sure. You began your work shortly
18 after your appointment on April 22nd?

19 A. I began my work on April 22nd, yes.

20 Q. And certainly continued it up until
21 the time you submitted your report?

22 A. I did.

23 Q. And have you continued working since
24 then?

25 A. Other than to prepare for this

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1 - MARTI KOPACZ - VOLUME 1-

2 deposition, no.

3 Q. Okay. During the period of time
4 between April 22nd and July 25th, how many
5 meetings do you believe that you personally had in
6 connection with this project?

7 A. More than 50.

8 Q. And who in general -- you met with
9 the mayor, did you not?

10 A. I met with the mayor.

11 Q. And John Hill who is the city CFO?

12 A. I did.

13 Q. And the emergency manager?

14 A. Yes.

15 Q. And counsel for various creditors?

16 A. Yes.

17 Q. Okay. And members of the City
18 Council?

19 A. Yes.

20 Q. Members of the city government?

21 A. Yes.

22 Q. And those are just some categories.
23 What other categories of person have
24 I not mentioned in summarizing the persons with
25 whom you met?

1 - MARTI KOPACZ - VOLUME 1-

2 A. Financial advisors to creditors and
3 the city.

4 Q. And by name who would those be?

5 A. Ernst & Young, Conway MacKenzie,
6 Houlihan, Alvarez, FTI.

7 Q. Others, too?

8 A. Others.

9 Q. Beyond that?

10 A. Yes.

11 Q. And sorry if I just asked this and
12 misstated.

13 Can you estimate the number of hours
14 you spent in meetings?

15 A. I can't.

16 Q. More than a hundred?

17 A. Yes.

18 Q. Now, members of your team also had
19 meetings, did they not?

20 A. Yes.

21 Q. Did they try to keep you informed of
22 the meetings they were having?

23 A. Generally, yes.

24 Q. Do you know how many meetings
25 individuals on your team had?

1 - MARTI KOPACZ - VOLUME 1-

2 A. No.

3 Q. Over a hundred?

4 A. I don't know.

5 Q. Okay. Do you know how many hours
6 they spent?

7 A. I don't know.

8 Q. You listed for me the people who
9 worked with you on this project.

10 During the period from April 22nd to
11 July 25th, did you or any of them have other
12 projects you were working on besides this project
13 for the City of Detroit?

14 A. Can I -- July 18th is when issued my
15 report. Okay?

16 Q. I'm sorry. I misstated it, yes.

17 A. And I -- did anyone have other
18 projects other than the City of Detroit? The
19 answer is yes.

20 Q. Okay. What percentage of your time
21 did you spend on the Detroit project?

22 A. 99 percent.

23 Q. And, if you can, the members of your
24 team, what percentage of their time did they
25 spend?

1 - MARTI KOPACZ - VOLUME 1-

2 A. Some people were completely a hundred
3 percent dedicated to Detroit and everyone that had
4 preexisting client responsibilities really did
5 those in evenings and weekends, so a high
6 percentage of their time was spent on Detroit.

7 Q. And I assume the work weeks during
8 the period from April 22nd to July 18 were not
9 40-hour work weeks?

10 A. Generally, no.

11 Q. Generally, how many hours a week did
12 you and members of your team work?

13 A. I don't know.

14 Q. Long hours?

15 A. Generally, yes.

16 Q. Weekends?

17 A. Yes.

18 Q. Now, do you plan to testify at trial?

19 A. I believe the Judge is going to tell
20 us about that next Wednesday at a status hearing.

21 Q. Okay. Do you intend to do anymore
22 work between now and the time you testify at
23 trial?

24 A. I do.

25 Q. What do you intend to do?

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1 - MARTI KOPACZ - VOLUME 1-

2 A. I intend to read the fifth amended
3 plan.

4 Q. Uh-huh.

5 A. I want to review the information I
6 received on the collective bargaining agreements.

7 Q. Uh-huh.

8 A. And, you know, if -- if there are new
9 projections from the City, obviously, I would
10 review those before trial.

11 Q. Okay. As you sit here today, and I'm
12 going to get into this in greater depth, just as a
13 general question, do you have any misgivings about
14 the analysis that you've set forth in your report?

15 A. Misgivings how?

16 Q. Of any sort -- of any sort.

17 A. Could you give me a different word
18 please?

19 Q. Okay. Is from any conclusion in the
20 report that you're not confident about?

21 A. That I'm not comfortable with?

22 Q. Confident about.

23 A. I have a great deal of confidence in
24 my opinions.

25 Q. Is there any conclusion or analysis

- MARTI KOPACZ - VOLUME 1-

in your report you'd like to change?

A. No.

Q. Now, I think I'd shown you the order -- Court's order, which would be I think our Exhibit 1. No, it's our Exhibit 2 appointing you as the expert witness. You'd already read into the record, Ms. Kopacz, about feasibility.

As part of your work, you defined the standard of feasibility, did you not?

A. I did.

Q. And it's on Page 13 of your report. Let me ask you just to look at Page 13.

A. Uh-huh.

Q. Is that before you?

A. It is.

Q. Okay. And I'm directing your attention to the italicized, indented language and let me just ask you, just so we have it on the record, if you could read it into the record. Then I'm going to ask you about it.

A. Okay. "Is it likely that the City of Detroit after the confirmation of a plan of adjustment will be able to sustainably provide basic municipal services to the citizens of

1 - MARTI KOPACZ - VOLUME 1-

2 Detroit and to meet the obligations contemplated
3 in the plan without the significant probability of
4 a default."

5 Q. And this was the definition you
6 worked with in analyzing the data and reaching the
7 conclusions on your project?

8 A. This is a definition that I developed
9 along with my team against which I then assessed
10 the City's plan.

11 Q. And it says here "sustainably
12 provide."

13 What did you mean when you said
14 "sustainably provided"?

15 A. That the City would be able to
16 deliver basic municipal services indefinitely into
17 the future.

18 Q. When you say "basic municipal
19 services," what services are you referring to?

20 A. Fire, police services, road
21 maintenance, the like.

22 Q. And you go on to say, "to meet the
23 obligations contemplated in the plan."

24 That means what the plan provides for
25 in terms of what the city must in future years

- MARTI KOPACZ - VOLUME 1-

pay, correct?

A. Yes.

Q. And then you go on to say, "without the significant probability of default."

Do you see that?

A. Yes.

Q. And what does "significant probability" mean as you used it here?

A. It's my thought around, is the plan structured so that there's a likelihood that the City would default, so --

Q. And is -- go ahead.

A. Yeah.

Q. So significant probability is the flip side of a likelihood, right?

A. Yes.

Q. Okay. Can you put a percentage number on the term "significant probability"?

A. I cannot.

Q. Now, in your work, I think you've written in your report that you looked at quantitative factors, correct?

A. Yes.

Q. And those included the accuracy of --

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1 - MARTI KOPACZ - VOLUME 1-

2 the mathematical accuracy of projections?

3 A. Yes.

4 Q. Correct?

5 And the reasonableness of the City's
6 assumptions, both individually and as a group?

7 A. Yes.

8 Q. And finally, whether there was an
9 adequate contingency as set forth in the City's
10 projections, correct?

11 A. Yes.

12 Q. I meant to ask you, by the way, in a
13 footnote you point out that the term "forecasts"
14 and the term "projections" are not necessarily
15 synonymous although you will treat them as such
16 for your report.

17 For the record, what is the
18 difference?

19 A. It's -- the difference exists in
20 accounting terminology.

21 Q. Uh-huh.

22 A. Whereas a -- generally, the thinking
23 is that a forecast is kind of the best estimate,
24 whereas projections can include any set of
25 variables and any sort of assumptions, sensitivity

1 - MARTI KOPACZ - VOLUME 1-

2 Q. So the first sentence says,
3 "Ms. Kopacz has prepared dozens of financial
4 projections for clients and reviewed and critiqued
5 dozens more prepared by others."

6 This has been in connection with your
7 work at Phoenix and elsewhere?

8 A. Yes.

9 Q. And by "projections," you mean
10 forecasts as well as projections as we just
11 discussed?

12 A. Yes.

13 Q. And just as a general matter, when
14 you, yourself, have prepared projections, what
15 kind of assignment did you have that asked you to
16 prepare projections?

17 A. Generally, it would be in the context
18 of representing a client that was financially or
19 operationally troubled, potentially involved in a
20 formal or informal restructuring or Bankruptcy
21 Court proceeding.

22 Q. Okay. And then you write you
23 "critiqued dozens more prepared by others."

24 Would that be in a comparable --
25 comparable setting?

1 - MARTI KOPACZ - VOLUME 1-

2 A. Yes.

3 Q. Okay. And then you write -- or this
4 exhibit says, "She has previously testified as to
5 the appropriateness of forecasting methodology,
6 the assumptions upon which forecasts are based and
7 the likelihood of an organization to meet its
8 forecast."

9 Okay. And what engagements asked you
10 to do that work?

11 A. That -- the first time I ever
12 testified on forecasting and assumptions was in a
13 matter called HealthCo -- HealthCo. It was a case
14 that -- and I believe it's in, we go back to my
15 proposal to the Court, it's listed and it will
16 tell you, but it was a bankruptcy case that
17 involved a failed leverage buyout transaction that
18 the trustee believed was a fraudulent conveyance.

19 Q. Okay.

20 A. And my engagement, I represented the
21 Lazard Freres who had been the investment banker
22 and Coopers & Lybrand, at the time the
23 accountants, who were being sued and my job was to
24 put myself back in the position at the time that
25 that transaction was done and evaluate the

1 - MARTI KOPACZ - VOLUME 1-

2 reasonableness of the projections that were made
3 then.

4 Q. And this leads me to ask you a
5 question.

6 I take it that a good deal of your
7 work in your career has involved entities that are
8 one way or the other involved in bankruptcy or
9 insolvency matters?

10 A. Yes.

11 Q. Have you, as a practice, represented
12 one side more than the other side; in other words,
13 creditors more than debtors or debtors more than
14 creditors in this work?

15 A. I don't think -- I think it's very
16 balanced for the most part.

17 Q. And you've also been involved in
18 municipal insolvencies?

19 A. I have been involved in municipal --
20 troubled municipal situations.

21 Q. Okay. And what are some examples of
22 those?

23 A. The one that I was involved in most
24 significantly and for the longest period of time
25 was Nassau County here in New York.

1 - MARTI KOPACZ - VOLUME 1-

2 Q. Okay. But you've had others too?

3 A. Yes.

4 Q. Okay. Back to Exhibit 1, further
5 down it's written, "Ms. Kopacz understands the
6 nuanced area" -- "area of municipal budgeting."

7 Do you see that -- budgeting.

8 A. Yes.

9 Q. Okay? What -- what do you mean when
10 you say "nuanced area"?

11 A. Municipal budgeting and government
12 accounting are significantly different than what
13 most of us become familiar with in the private
14 sector. It involves fund accounting. It involves
15 appropriations and encumbrances and concepts that
16 we don't have in the private sector.

17 Q. When you say "incumbrances," what do
18 you mean?

19 A. Encumbrances is a manner by which
20 government on paper sets aside funding for
21 particular projects or services or goods.

22 Q. Okay. And the next sentence says,
23 "Because municipal entities lack a 'standard' in
24 budgeting, forecasting and accounting, great
25 variations occur in the manner in which public

1 - MARTI KOPACZ - VOLUME 1-

2 entities report financial results and develop
3 forecasts."

4 When you say they "lack a standard,"
5 what do you mean by that?

6 A. They -- private entities are for the
7 most part required to adhere to generally accepted
8 accounting principles. There are the government
9 version of accounting principles allow for a great
10 deal of variety and individual variation in terms
11 of how municipal entities report revenues,
12 expenses, capital expenditures, and the like.

13 Q. Do municipalities typically approach
14 these issues in the same manner?

15 A. No.

16 Q. So how does one go about
17 understanding how any particular municipality has
18 handled its accounting?

19 A. You have to do a detailed analysis of
20 whatever the revenue, the expense and the
21 accounting for that is.

22 Q. You did that here in the case of the
23 City of Detroit?

24 A. In -- in some cases, yes.

25 Q. Okay. You certainly got to the point

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1 - MARTI KOPACZ - VOLUME 1-

2 where you felt you understood how Detroit did its
3 forecasting and budgeting, correct?

4 A. Is that -- are you talking before the
5 bankruptcy or during the bankruptcy?

6 Q. No, during -- during your -- your
7 work.

8 A. Right. In terms of those forecasts
9 and budgets --

10 Q. Yes.

11 A. -- as they relate to the plan?

12 Q. Yes.

13 A. Yes, I do.

14 Q. Okay. Now, you mentioned that you
15 met with financial advisors, including Ernst &
16 Young and Conway MacKenzie?

17 A. Yes.

18 Q. As between the two, how have they
19 divided up the work of being advisors to the City?

20 A. It's my understanding that Ernst &
21 Young was responsible for the ten-year baseline
22 plan, the 40-year plan and, at a functional level,
23 is responsible for the cash management for the
24 City. And that Conway MacKenzie developed the
25 restructuring and reinvestment initiatives, what

1 - MARTI KOPACZ - VOLUME 1-

2 forecast of income in future years -- income tax
3 revenues in future years was or was not a
4 reasonable forecast?

5 A. I looked at historical information.
6 I looked at the outside -- the statewide
7 information from various parties, and I and my
8 team interviewed the team at Ernst & Young who did
9 the analysis and the development of these
10 projections.

11 Q. Fair to say you didn't simply accept
12 the credibility of the Ernst & Young assumptions?

13 A. I did not.

14 Q. Or the Ernst & Young calculations?

15 A. I did not.

16 Q. You did your own checking of them?

17 A. I did.

18 Q. And then used your own knowledge base
19 to reach a conclusion about the quality of Ernst &
20 Young's work?

21 A. I -- I didn't reach a conclusion
22 about the quality of Ernst & Young's work. I
23 reached a conclusion on the reasonableness of
24 those assumptions.

25 Q. Okay. And -- and by the way, the

1 - MARTI KOPACZ - VOLUME 1-

2 process you just described for me, we used the
3 example of income tax.

4 A. Yes.

5 Q. Would it -- would you give the same
6 answer if I asked about other types of taxes of
7 revenue items in terms of your general approach?

8 A. Yes.

9 Q. And in terms of various items of
10 expense in terms of your general approach?

11 A. Yes.

12 Q. Okay. Now, let me, if I could, just
13 ask you about some of the opinions that you
14 reached.

15 A. Uh-huh.

16 Q. And on Page 200 of your report you
17 speak of some of the qualitative issues.

18 A. Yes. I have quantitative issues on
19 200.

20 Q. I'm sorry. Quantitative, sorry.
21 Advancing age and failing eyesight has -- has
22 undermined me. Yeah, on quantitative issues.

23 A. Yes.

24 Q. The first paragraph you write, "It is
25 my opinion that except for otherwise noted in my

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1 - MARTI KOPACZ - VOLUME 1-

2 report the projections are generally
3 mathematically correct and materially reasonably
4 and, therefore, fall within the feasibility
5 standard I have defined."

6 Do you see the language I read?

7 A. Yes.

8 Q. I notice there's a typo. Did you
9 mean to write "materially reasonable" instead of
10 "materially reasonably"?

11 A. Yes. Thank you.

12 Q. It's all right. It's basically what
13 lawyers are trained to do is look for typos. I
14 went to law school imagining myself in front of
15 the U.S. Supreme Court; instead I've become a
16 glorified proofreader.

17 All right. Now, when you say the
18 generally mathematically -- the projections you're
19 speaking about are the City's 10 and 40-year
20 projections?

21 A. That's correct.

22 Q. And we already -- go ahead. I'm
23 sorry.

24 A. And the -- and the RRI projections.

25 Q. And I've already asked you about the

1 - MARTI KOPACZ - VOLUME 1-

2 phrase "mathematically correct."

3 A. Uh-huh.

4 Q. What do you mean when you say
5 "materially reasonable"?

6 A. I believe the projections taken as a
7 whole are reasonable.

8 Q. And then the next paragraph says, "It
9 is my opinion that, except where otherwise noted
10 in my report, the individual assumptions used to
11 build the projections fall into a reasonable range
12 and that, when taken as a group, these assumptions
13 are also reasonable."

14 Can you tell me why you were able to
15 reach that conclusion?

16 A. Because we reviewed and looked at
17 every line item, every cell of every model.

18 Q. And how big was this model?

19 A. The -- the E&Y model is, my
20 recollection, I think about a -- over a hundred
21 sheets -- over a hundred Excel spreadsheets.

22 Q. Okay.

23 A. The Conway model is actually about
24 30 models together and each of those models is
25 multiple Excel spreadsheets. Clearly, Kevin Barr

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2 Q. So you testified that one feature of
3 a long forecast is the greater chance for
4 variability as the years go on, correct?

5 A. I would agree with that statement,
6 yes.

7 Q. Are you also saying that in the
8 future years that, although there may be such
9 variation, it becomes less material as we sit here
10 today because the variations happen so far into
11 the future?

12 A. The material word, I don't agree with
13 that in the sense that if it is a large risk
14 component in the out years, that could affect my
15 assessment of feasibility even though it was far
16 out into the future. The other part, and I don't
17 mean to quibble, but the near-term forecasts are
18 going to be wrong too. It's just will there be
19 enough variation in the forecast both plus and
20 minus that on average things will be okay.

21 Q. Okay. And there are such things
22 as -- as offsetting entries or offsetting
23 variations, correct?

24 A. Correct. Yes.

25 Q. Is there any mathematical or

1 - MARTI KOPACZ - VOLUME 1-

2 forecasting rule about that?

3 A. Not to my knowledge.

4 Q. Let me ask about the RRI's if I could.

5 A. Okay.

6 Q. You've mentioned. That's short for
7 restructuring and reinvestment initiatives?

8 A. Yes.

9 Q. Okay. And fair to say that you
10 generally are complimentary of the RRI's that the
11 City has planned?

12 A. Complimentary?

13 Q. Let me look -- let's look at 207 of
14 your report.

15 A. Okay.

16 Q. At the very top, you've written, "The
17 RRI's are one of the positive outcomes of the
18 bankruptcy process. The RRI's provide the backbone
19 of the improved services to the City of Detroit."

20 That's -- that's what I was asking
21 you about.

22 A. Yes. Yes.

23 Q. So you -- you believe that on balance
24 the RRI's are a good not a bad thing?

25 A. Yes.

1 - MARTI KOPACZ - VOLUME 1-

2 by which the RRI's were to be implemented?

3 A. I'm not sure anyone has yet.

4 Q. Okay. Or the timetable for
5 implementation -- for implementation?

6 A. I'm not sure -- I'm not sure that
7 that has been completely defined at this point.

8 Q. In the course of your work, did you
9 look at the dollar amount of the RRI's to see if
10 those were reasonable assumptions for the each
11 RRI?

12 A. Yes.

13 Q. And what did you determine?

14 A. We concluded that they were
15 reasonable estimates for what these initiatives
16 would cost.

17 Q. Now, one of the things you looked at
18 I think you said was blight?

19 A. Yes.

20 Q. And specifically, I guess the removal
21 of blight?

22 A. Yes.

23 Q. How significant in your opinion is
24 the City's program for the removal of blight?

25 A. Blight removal is very important to

1 - MARTI KOPACZ - VOLUME 1-

2 Q. Because they've been changed in the
3 most recent set of projections?

4 A. The/the conversations that I and my
5 team had with E&Y with regard to this were looking
6 at the long-term trends, they have studied it. It
7 would be -- you don't want to overreact to any
8 very short-term change. So, I think the -- the
9 decrease in the wagering tax assumption here
10 was -- was reasonable in light of the long-term
11 nature of the projection.

12 Q. Okay. Just to summarize, because
13 your answer touched a few things.

14 There has been a set of projections
15 from the City and the fourth amended plan of
16 adjustment which was filed in May, correct?

17 A. Yes.

18 Q. And then EY came up with a revised
19 and updated set of projections on July 2nd?

20 A. EY and Conway.

21 Q. And Conway.

22 A. Uh-huh.

23 Q. And as to wagering taxes, the
24 July 2nd projections lowered the level of wagering
25 tax revenue that was forecast, correct?

1 - MARTI KOPACZ - VOLUME 1-

2 Q. But when you say "factor in," you
3 mean the projections have some allowance for the
4 chance this opportunity may not be realized?

5 A. I don't know if the contingency was
6 created to address this specifically, but clearly,
7 this is a risk and you put a contingency in so
8 that you can balance off the positive and the
9 negative variances.

10 Q. Okay. Now, at Page -- I've asked you
11 before about improvement of the City's IT systems
12 and we talked about the amount of the spend the
13 City is thinking about for IT improvements. Some
14 of those would be implementation of new IT systems
15 all together?

16 A. Yes.

17 Q. Are you familiar with the failure
18 rate of implement -- implementation of new IT
19 systems?

20 A. We did. I am.

21 Q. Okay. And what -- what is -- what
22 are the risks of a failure of implementation of a
23 new IT system?

24 A. Time and money.

25 Q. Okay. How -- and what would the

1 - MARTI KOPACZ - VOLUME 1-

2 conservative assumption would be something that
3 would either cause a reduction in the value of the
4 revenue or an increase of the value of the
5 expenses.

6 Q. Have you attempted to quantify the
7 conservative assumptions in the City's
8 projections?

9 A. I have not.

10 Q. You then go on the say, "While I do
11 not believe a 1 percent contingency is adequate, I
12 believe that the POA projections taken as a whole
13 fall within the range of reasonableness and within
14 my definition of the feasibility standard."

15 Do you see that?

16 A. That's correct.

17 Q. And are you saying that, although the
18 1 percent contingency is not enough, the other
19 conservative assumptions offset any shortcomings?

20 A. I'm saying taken as a whole -- the
21 projections with all of the conservative and
22 aggressive assumptions taken as -- as a whole are
23 reasonable.

24 Q. Okay. Let me ask you about
25 sensitivity analyses now.

1 - MARTI KOPACZ - VOLUME 1-

2 A. Okay.

3 Q. And you have about a half dozen of
4 them in your report, correct?

5 A. I haven't counted them.

6 Q. Okay. Well, nor are we going to
7 itemize them all here, but they seem to be about
8 that many. And let me just go to the first one,
9 which is on Page 48, 49. And this is the
10 sensitivity analysis about income taxes.

11 A. Okay.

12 Q. And the analysis is described on
13 Page 48 and the table is on 49.

14 A. Uh-huh.

15 Q. Is it fair to say that this is the
16 mathematical exercise of the simply showing what a
17 1 percent change results in if no other constants
18 change?

19 A. That's correct.

20 Q. In fact, a change in taxable income
21 could affect other constants, right?

22 A. It could.

23 Q. And if so, the sensitivity analysis
24 would have to be altered to take into account
25 those other changes; is that right?

1 - MARTI KOPACZ - VOLUME 1-

2 A. Generally, a sensitivity analysis is
3 done around a single variable.

4 Q. Okay.

5 A. Right?

6 Q. And all of the sensitivity
7 analyses -- analyses you have done have been done
8 around a single variable, right?

9 A. Yes.

10 Q. And when it predicts a -- the effects
11 of a 1 percent change, it would be that absolute
12 number whether the 1 percent is up or whether the
13 1 percent is down, correct?

14 A. Yes. Yes.

15 MR. STEWART: That is all I have.

16 MR. HACKNEY: This might be a good
17 time for a break. I'm going to move all my
18 stuff over there.

19 MR. STEWART: Sure.

20 THE VIDEOGRAPHER: Okay. The time
21 now is 11:04 a.m. We're going off the
22 record.

23 (Whereupon, there was a brief recess
24 in the proceedings.)

25 THE VIDEOGRAPHER: Time now is

- MARTI KOPACZ - VOLUME 1-

the microphone.

MR. HACKNEY: That's okay. It's a long one, but I think it was the best way to ask it, so it may be better to have it read back.

(The question requested was read back by the reporter.

THE WITNESS: That didn't help me. Can we try again?

BY MR. HACKNEY:

Q. Yeah. So, I think -- let me try and summarize what you've said.

I believe that you have testified that you believe the CAFRs are reliable financial information sets, correct?

A. Right. I -- the CAFRs are based on financial information that has been tested and vetted and upon which KPMG has opined. Okay?

I may quibble with some of the accounting that's in there just because I have a view of certain things. Okay? But at least at that point in time, if we're looking at, for example, the CAFR in June of '12, which was the basis for the original baseline by E&Y, if they

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1 - MARTI KOPACZ - VOLUME 1-

2 said they had 10,002 employees and they paid them
3 \$386 million, I think those are probably very good
4 numbers.

5 Q. Okay. So, I think we're on common
6 ground when we say to one another the CAFRs are in
7 your view reliable financial information sets,
8 correct?

9 A. Right.

10 Q. We then talked about the -- in the
11 interim between --

12 A. Right.

13 Q. -- between the CAFRs, I think your
14 testimony was to the effect of some information
15 may be reliable and some may not be reliable,
16 correct?

17 A. Yes.

18 Q. That's part of the problem that
19 Detroit is facing now, right, it's difficulty with
20 its an assembly of financial information?

21 A. Yes.

22 Q. So my question is that to the extent
23 that the forecasts in the plan are based on
24 information that was developed after the 2012
25 fiscal year CAFR, you have not made an assessment

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2 had to be.

3 Q. Yeah. It had to be.

4 A. By definition, had to be.

5 Q. Are there problems with the forecasts
6 that are in the plan in your view?

7 A. Problems? I -- I don't -- there's
8 not problems with them in the sense of where they
9 end up, right? I, again, have been really
10 critical of how confusing they are.

11 Q. I was going to say that it seems to
12 me that when a forecast is confusing, and I'm one
13 of the people that shares your view that they're
14 confusing, that strikes me as a problem with the
15 forecast. I think a forecast should not be
16 confusing, but that's me and I wanted to ask
17 whether or not the confusing nature of the
18 forecasts was a problem from your point of view?

19 A. It -- it caused my team to spend an
20 enormous amount of time in understanding and
21 checking the model, right? It -- it -- I think
22 the -- the word I'd use in here or a word I used
23 at one point in time was it was tedious.

24 Q. Isn't it fair to say that it -- it
25 took an enormous amount of time just to understand

1 - MARTI KOPACZ - VOLUME 1-

2 the model?

3 A. We -- yes. I -- I believe that I
4 have a good understanding of all the models. You
5 know, members of my team have a -- an incredibly
6 intimate understanding of those models. But that
7 required a significant effort on our part, but we
8 understand them now.

9 Q. How long would you say it took you
10 and your team to reach the point where you could
11 say, okay, I now have an understanding of the
12 model?

13 A. About the -- by the time we got the
14 July 2nd numbers, we had a really good
15 understanding of the May 5th numbers.

16 Q. Okay. So, you were retained on or
17 about April 22?

18 A. April 22nd. We got the working
19 models on the E&Y stuff Memorial Day.

20 Q. Which was April 30 or something like
21 that?

22 A. May something or other, right?

23 Q. Okay.

24 A. And, you know, within a couple of
25 weeks of actually getting the working models, we

1 - MARTI KOPACZ - VOLUME 1-

2 were in -- in pretty good stead with understanding
3 the May 5th, and then we got the July 2nd and went
4 through a similar process with that; albeit, you
5 know, we already knew how they worked so it was
6 easier to do those.

7 Q. So would you say by the end of May
8 that you believe your team had achieved a good
9 working understanding?

10 A. No. By the end of -- by the end of
11 June.

12 Q. Oh, by the end of June?

13 A. By the end of June.

14 Q. And you --

15 A. We didn't get the working models
16 until the end of May.

17 Q. Okay. You had less than --

18 A. May something or other.

19 Q. You had less than 90 days to do your
20 work in this case, correct?

21 A. Yeah, whatever it's been.

22 Q. So May, June, July -- April 22 to
23 May -- July 18 I think.

24 A. Yes.

25 Q. Did you have sufficient time to do

1 - MARTI KOPACZ - VOLUME 1-

2 your work?

3 A. I feel like I did. I mean there's
4 still a couple of things that, as I said in to
5 response to Mr. Stewart, questions that I intend
6 to do going forward. But for the most part, I am
7 satisfied with our ability to evaluate what all
8 the information that was available and meet with
9 the people that were available and do what we
10 needed to do.

11 Q. With respect to the forecasts?

12 A. With respect to the forecasts.

13 Q. Now, with respect to the
14 restructuring and reinvestment initiatives, you're
15 not offering the opinion that they will achieve
16 the goals that they're held out to achieve,
17 correct?

18 A. No. No.

19 Q. And you haven't conducted a
20 comprehensive review of the City's department from
21 an operational standpoint to understand how the
22 restructuring and reinvestment initiatives map on
23 to needs of each department, correct?

24 A. I have not redone -- I have not
25 redone the work that Conway has done. That's for

1 - MARTI KOPACZ - VOLUME 1-

2 They're not in -- they're not what we
3 would consider to be part of the City's budget.

4 Q. Understood.

5 A. Right. But they're in the plan as a
6 sources of funds.

7 Q. Okay. So, let me -- let me put --
8 let me turn the question around, which is what
9 revenue streams did you not study?

10 A. I don't think that there was any
11 revenue stream of a recurring nature that we
12 didn't study.

13 Q. Well, what about something like DWSD?
14 Did you undertake an analysis to determine whether
15 in the future the City's general fund might obtain
16 revenue from what is currently known as DWSD?

17 A. We did not do that.

18 Q. Okay. So you have no opinions on
19 that one way or the other?

20 A. I do not.

21 Q. You are generally aware that there is
22 this concept that the DWSD may change the
23 structuring in which it's housed in a way that
24 yields an additional revenue stream to the general
25 fund?

1 - MARTI KOPACZ - VOLUME 1-

2 increase the likelihood that the prior plans, all
3 things being equal, were feasible, correct?
4 Because it would make the City's ability to comply
5 with the plan a lower bar?

6 MR. ALBERTS: Objection.

7 THE WITNESS: More cash available
8 improves feasibility.

9 BY MR. HACKNEY:

10 Q. If steeper cuts to pensions increases
11 the amount of cash that's available, steeper cuts
12 to pensions makes the plan more feasible. Do you
13 agree?

14 A. I'm not sure if it's -- that's it's
15 if P then Q, and you're saying Q therefore P. I'm
16 not sure that -- that you can do that, right?

17 Q. Why not?

18 A. Well, because again, it's -- it's the
19 totality of the cash that's available. So would I
20 like to have -- again, I have been very clear in
21 my report. I'm being very clear today.

22 I would like to see more cash that's
23 not committed to somebody or something available
24 in this plan to provide cushion for variabilities
25 that are necessarily going to happen. So if -- if

1 - MARTI KOPACZ - VOLUME 1-

2 Q. Have you ever seen another
3 municipality do a comprehensive general fund
4 forecast over a 40-year period -- a gen --
5 comprehensive general fund forecast over a 40-year
6 period?

7 A. Forty years.

8 Q. Yeah.

9 A. No.

10 Q. So, the two that are in the plan, the
11 10-year and the 40-year, are the first you've ever
12 seen a municipality do, correct?

13 A. That I've ever seen? Yes.

14 Q. Have you ever seen a municipality do
15 a forecast when it was undergoing this level of
16 change?

17 A. Personally? No.

18 Q. Ma'am, have you ever been qualified
19 in a court of law as an expert before?

20 A. I have.

21 Q. Okay. And tell me how many times
22 that's happened to you?

23 A. We should go back and look at my
24 testimony list, right? Probably -- I don't think
25 it's in there. I think it's in my proposal. I

1 - MARTI KOPACZ - VOLUME 1-

2 referenced it.

3 MR. KANE: I've got some copies of it
4 if you want it.

5 BY MR. HACKNEY:

6 Q. Okay. I missed that.

7 A. Yeah. More than two, probably less
8 than five, ten. Something like that.

9 Q. Okay. So that means that's where a
10 Court has said Ms. Kopacz is an expert and I'm
11 going to allow her to testify on Subject X?

12 A. Right.

13 Q. And it's somewhere between two and
14 five?

15 A. That's what I'm thinking.

16 Q. What were the subjects of your
17 testimony?

18 A. Generally, it's all been insolvency
19 and restructuring oriented. So whether or not,
20 you know, an entity was solvent or insolvent.
21 Whether or not -- it's all -- I mean, my career
22 has been spent in restructuring, so it's all in
23 that context.

24 Q. A very typical restructuring expert
25 testimonies that I come across in my practice, an

1 - MARTI KOPACZ - VOLUME 1-

2 the average income data for the City of Detroit,
3 correct?

4 A. That's correct.

5 Q. Okay. You relied on data that was
6 given to you by Ernst & Young?

7 A. That's correct.

8 Q. Okay. And you haven't taken steps to
9 assess the accuracy of that data, correct?

10 A. That's correct.

11 Q. And with respect to the level of
12 unemployment in the City, you also relied on data
13 that was given to you by Ernst & Young, correct?

14 A. Yes.

15 Q. But you did not attempt to
16 independently verify that data --

17 A. I'm not --

18 Q. -- correct?

19 A. -- sure. I'm not sure what
20 independent information we had on employment -- on
21 unemployment.

22 Q. Okay. You may have. You may not
23 have. You just don't know?

24 A. Yes.

25 Q. Is it true that unemployment in the

1 - MARTI KOPACZ - VOLUME 1-

2 "directly"?

3 A. Well, I've -- I worked extensively
4 for the Nassau County Interim Finance Authority,
5 which is the state control board that oversees the
6 finances in Nassau County here in New York. So,
7 the -- that -- that is -- again, it's not the
8 county itself. It's the control board that
9 oversees the county.

10 Q. Understood. Okay.

11 A. Right.

12 Q. Now -- so let's try and -- let's try
13 and break it down a bit.

14 You personally have never done a
15 municipal forecast, correct?

16 A. That's correct.

17 Q. You have worked with municipal
18 forecasts in connection with your work for Nassau
19 County, correct?

20 A. Correct, and other entities in
21 municipalities.

22 Q. Okay. That was my next question,
23 which is other than Nassau County, what
24 engagements have you had where you worked with a
25 municipal forecast understanding that you're not

1 - MARTI KOPACZ - VOLUME 1-

2 the one who created it?

3 A. In -- I had an engagement where I've
4 been retained by seven transit authorities.

5 Q. One engage meant?

6 A. Yes, it was interesting. New York,
7 Chicago, Boston, San Francisco, Minneapolis. I'm
8 trying to think. Oh, Dallas was part of that
9 group, right. So I worked with their forecasts
10 and their budgeting and planning system.

11 Q. Oh, I see.

12 A. Right.

13 Q. And that was limited to just their
14 enterprise funds?

15 A. I -- I -- to be honest with you, I
16 don't know if they were just enterprise funds or
17 general funds, but it would have been departmental
18 level budgeting and projecting.

19 Q. Can I describe your work for those --
20 those transit authorities as looking at their
21 operations and at the forecasts that related to
22 them and trying to understand how they could
23 improve operations in order to improve the
24 forecast? Is that a generally accurate
25 description?

1 - MARTI KOPACZ - VOLUME 1-

2 A. It could be -- you could generally
3 say that, but yes.

4 Q. Okay. Is it fair to say that in --
5 in that retention you weren't studying the
6 accuracy of the forecasts. You were trying to
7 help the transit authorities improve?

8 A. No. In that situation we were
9 dealing explicitly with the revenue side of
10 transit businesses and advertising income and, you
11 know, pricing that.

12 Q. Okay. So you were trying to
13 understand the accuracy of the forecasts of the
14 transit revenue?

15 A. And the -- and the potential to
16 transit revenue.

17 Q. I see. Okay. So it was kind of a
18 mixture of trying to understand, first, whether
19 you agreed with forecast and then, second, trying
20 to understand whether doing things like
21 advertising might improve --

22 A. No. It had to do with long-term
23 contracts for advertising revenue to those transit
24 authorities relative to the person who -- the
25 entities that had contracted with them for the

1 - MARTI KOPACZ - VOLUME 1-

2 advertising revenue.

3 Q. Okay. So, we have NIFA, right, which
4 is the Nassau County --

5 A. Yes.

6 Q. I learned all about NIFA. And then
7 we've got transit authority retention?

8 A. We've got the transit authority.

9 Q. Any other municipal retentions where
10 you've worked with a municipal forecast?

11 A. In the -- in the Legal Aid Society
12 case, because the vast majority of the Society's
13 revenue comes from New York City or New York
14 state, okay, in terms of we worked with those
15 municipal entities relative to our own budgets.

16 Q. I see. So because they get money
17 from the state --

18 A. Right.

19 Q. -- you worked with --

20 A. And the City and has to be
21 appropriate and legislated, yes.

22 Q. And does that mean that you worked
23 with the state and city forecasts because had you
24 to understand them in order to prepare a forecast
25 for the Legal Aid Society?

1 - MARTI KOPACZ - VOLUME 1-

2 A. We had to understand what the
3 possibility of funding was from state and the
4 City, okay, and how the City's budget process
5 worked and how we got appropriated our monies.

6 Q. But in that context, you were not
7 assessing the accuracy of either the state or city
8 forecasts?

9 A. That's correct.

10 Q. Okay. And in the Nassau County
11 retention, were you assessing the accuracy of the
12 Nassau County forecast?

13 A. Yes.

14 Q. Okay. So you were -- part of your
15 job was to evaluate the Nassau County forecast to
16 determine whether you agreed with it?

17 A. Yes.

18 Q. Okay. That's helpful.

19 What is the methodology that a
20 municipality typically employs when preparing a
21 forecast for its general fund?

22 A. I'm not sure there's a typical.

23 Q. Okay. So, I noticed in your CV that
24 you said one aspect of municipal -- I think you
25 said, we can get it out, but it was something like

1 - MARTI KOPACZ - VOLUME 1-

2 municipal accounting and budgeting is that there
3 is no standard.

4 A. Correct.

5 Q. Do you remember saying that in your
6 CV?

7 A. Yes.

8 Q. What did you mean by that?

9 A. Well, there's no -- government
10 accounting -- there's something called the
11 Government Accounting Standards Board, okay, that
12 would like to believe that it creates standards
13 analogous to generally accepted accounting
14 principles. But there is a great deal of
15 variability in what the GASB prescribes in terms
16 of municipal accounting procedures, right? And
17 there is no standard for budgets. Okay? There is
18 no accounting standard that covers budgets.
19 Accounting covers historical recording of revenues
20 and expenses.

21 Q. So, you're not aware, as you sit here
22 today, of any either government agencies or -- or
23 associations that have promulgated methodologies
24 for forecasting municipal revenues?

25 A. There are. Okay? Either it's things

1 - MARTI KOPACZ - VOLUME 1-

2 like the Government Finance Officers Association.

3 There are trade associations. There are

4 quasi-oversight committees that -- panels and

5 groups that are trying to promulgate a set of

6 standards for municipalities in these areas, but

7 there's nothing that is as uniform and

8 acknowledged as we have with generally accepted

9 accounting principles and the way that the SEC

10 oversees that.

11 Q. Okay. So have you reviewed the
12 publications of the Government Finance Officers
13 Association?

14 A. I saw them.

15 Q. Okay. It's fair to say that you
16 didn't review them in connection with this case,
17 correct?

18 A. No, that's correct.

19 Q. Okay. So, have you ever reviewed An
20 Elected Officials Guide to Revenue Forecasting,
21 which is a publication by the GFOA?

22 A. I may have.

23 Q. I'll show you what it looks like. It
24 looks like this.

25 A. I would probably have looked at it

1 - MARTI KOPACZ - VOLUME 1-

2 A. Yes.

3 Q. You didn't perform trend analysis
4 with respect to the City's forecasts?

5 A. That I would say we did.

6 Q. Okay. That is something you would
7 say that you did do?

8 A. Yes.

9 Q. And did the City do that?

10 A. I believe the City did that.

11 Q. Okay. Now, have you reviewed the
12 National Advisory Council on State and Local
13 Budgeting and their publications?

14 A. I have not.

15 Q. Do you agree that forecasting is a
16 highly subjective area?

17 A. Yes.

18 Q. And, as such, it's subject to the
19 biases of the person doing the forecast, correct?

20 A. Yes. And -- and -- but I would
21 qualify biases as neither good nor bad.

22 Q. Understood. It's not a -- it's not
23 meant to be a negative word like -- like racial
24 bias.

25 A. Right.

1 - MARTI KOPACZ - VOLUME 1-

2 reason that you found the forecasts confusing is
3 because they were the product of actually three
4 different groups of forecasters?

5 A. It's not that there are different
6 people involved. It is that they were never
7 harmonized and concatenated in a way that they're
8 all in one kind of place.

9 Q. What is the experience of Mr. Kline
10 and his team when it comes to forecasting
11 municipal revenues?

12 A. I don't know.

13 Q. Okay. Did you make any effort to
14 assess that?

15 A. I did not.

16 Q. Was that important to you?

17 A. I looked at -- I used all the
18 information that was available to me and all the
19 people that were available to me and -- got
20 satisfied with the projections in the plan as
21 being reasonable revenue projections.

22 Q. Were you working under the assumption
23 that Mr. Kline and his team had substantial
24 experience forecasting municipal revenues?

25 A. I did not make that assumption, no.

1 - MARTI KOPACZ - VOLUME 1-

2 Q. You hadn't thought about it one way
3 or the other?

4 A. No, I did not make a determination
5 one way or the other.

6 Q. Okay. Did you ever meet them in
7 person?

8 A. I did not.

9 Q. You spoke to them on the phone?

10 A. I did.

11 Q. And what was the experience of Mr.
12 Malhotra's team when it came to forecasting
13 municipal expenses?

14 A. I don't know.

15 Q. And what was the experience of the
16 Conway MacKenzie team when it came to projecting
17 the costs or revenues associated with a municipal
18 restructuring?

19 A. I don't know.

20 Q. Now, when you were assessing the
21 reliability of the assumptions that are in the
22 forecasts, did you independently seek to develop
23 your own assumptions first and then compare so
24 that you could then compare them to the City's
25 assumption and see how they compared?

1 - MARTI KOPACZ - VOLUME 1-

2 A. No.

3 Q. Okay.

4 A. Generally not.

5 Q. So what you did, instead, was you
6 first understood what the City's assumption was
7 and then you tested the reasonableness of that
8 assumption, correct?

9 A. Generally that's correct, yes.

10 Q. Okay. Why didn't you, for example,
11 kind of in order to avoid just, you know, the
12 impact that even seeing their assumption can have
13 on you, why didn't you say, What do I think wages
14 will be year over year for the next ten years, and
15 do the work independently and then see how it
16 mapped?

17 A. Generally two reasons, time. When I
18 was appointed I had, I think, 62 days originally
19 between when I was appointed and when my report
20 was due.

21 Q. Yeah.

22 A. Okay. Secondly, I learned very
23 quickly the condition of the historical records of
24 the City, and realized that in order to get done
25 with my assignment, I was going to have to rely on

1 - MARTI KOPACZ - VOLUME 1-

2 the assimilation of data that the other
3 professionals had acquired. And that included the
4 creditors' professionals, as well.

5 Being the last person at the dance,
6 so to speak, I needed to rely on not only on
7 Ernst & Young and Conway, but Alvarez and FDI --

8 Q. Yeah.

9 A. -- and Houlihan, to help get us to
10 the best data that was out there.

11 Q. So let me see if I can summarize, the
12 time that you were allotted which we discussed and
13 which I've told you I'm of the view wasn't very
14 much, but it was what it was, but the time that
15 you were allotted did not allow you to either
16 independently verify the data or independently
17 generate your own assumptions?

18 A. I -- I wouldn't go so far as to say
19 we didn't independently verify because we did,
20 specifically on the revenue projections and things
21 surrounding those, we did seek other third-party
22 sources of data. So --

23 Q. There were instances where you sought
24 some form of corroboration?

25 A. Separate and apart from the City.

1 - MARTI KOPACZ - VOLUME 1-

2 generally.

3 Q. Yes. Right. And did you undertake a
4 revenue portfolio analysis in this case?

5 A. A revenue portfolio analysis? Don't
6 know what a revenue portfolio analysis is.

7 We looked at all the revenues that
8 were presented in the plan of adjustment
9 projections.

10 Q. So I guess can I say that to the
11 extent you undertook a revenue portfolio analysis,
12 you didn't do so consciously?

13 A. I wouldn't -- I don't think -- that
14 sounds like a term of art, it doesn't sound like
15 something that you would think about.

16 Q. That's -- that sounds like a term of
17 art from the world of revenue forecasting?

18 A. It's somebody's -- it's somebody's
19 term of art, but it's not my term of art.

20 Q. Okay. Did you make an independent
21 assessment for yourself as to whether or not the
22 City's revenue streams could be classified as
23 either predictable or unpredictable?

24 A. I looked at each revenue stream and
25 assessed whether I thought the City's forecast or

1 - MARTI KOPACZ - VOLUME 1-

2 projection of that revenue was reasonable.

3 Q. You did not otherwise attempt to
4 classify a revenue stream, correct?

5 A. No. It wouldn't serve my purpose.

6 Q. Okay. Do you agree as a general
7 matter that qualitative methods are useful for
8 forecasting new or volatile revenues sources?

9 A. What qualitative method?

10 Q. Qualitative methods like the naive
11 method, expert, judgmental, trend. Any of those.

12 A. Again, that's not the way that I
13 think about the analysis that we did of the City's
14 projections.

15 Q. Okay. Is it fair to say you never
16 took a step back from the City's approach and
17 tried to determine whether the approach should be
18 different for different revenue streams?

19 A. No, that's not fair to say.

20 Q. That's not fair?

21 A. No.

22 Q. Did the City employ different
23 approaches for different revenue streams or did it
24 employ the same approach?

25 A. When you say "approach," right, we're

1 - MARTI KOPACZ - VOLUME 1-

2 talking about, they -- each revenue stream is
3 forecasted on its own set of assumptions and then
4 they're aggregated to come up with a total revenue
5 projection. So income tax and the various types
6 of income tax are estimated differently than
7 wagering tax.

8 Q. How are they estimated differently?

9 A. Well, income tax looks at the change
10 in wages, it looks at the change in employment.
11 Whereas, wagering taxes looks at the change in
12 casino revenue.

13 Q. From my standpoint, I think of those
14 as being different data inputs but not necessarily
15 different approaches. But in your analysis, is it
16 a different approach?

17 A. They're -- they are definitely
18 different inputs and a different type of
19 assumption. I don't know whether that's a
20 different approach or different methodology,
21 whatever -- right -- whatever you say is they have
22 different inputs.

23 Q. I guess, you are an educated woman
24 and very experienced, I mean -- let me -- let me
25 quibble with you a little bit and say you have

- MARTI KOPACZ - VOLUME 1-

heard the term methodology before, right?

A. Uh-huh. Yes.

Q. And you understand that that different methodologies can all employ assumptions, right?

A. I would agree, yes.

Q. And so do you understand the difference between testing the assumptions that go into a methodology from the idea of testing the propriety of the methodology itself?

Do you understand that distinction, right?

A. I understand the distinction you're making right now, yes.

Q. You did not attempt to determine or critique the methodology the City employed, instead, you focused on the assumptions that the City adopted, correct?

A. Yes and no.

Q. Okay.

A. Okay. Methodology in terms of what we evaluated was the approach used by E & Y and Conway. Okay? Methodology is a term, to me, that is lower case, there's not a capital methodology,

1 - MARTI KOPACZ - VOLUME 1-

2 it's not a proper noun. Okay? It is a word that
3 describes how something is done. Okay? Depending
4 on what -- particularly on the cost side, what
5 costs were being estimated for the projections,
6 there were multiple methodologies used. Okay?

7 What was important to me was to
8 assess the outcome of that estimate and whether or
9 not that was reasonable. So, looking at the
10 assumptions, looking at the input, looking at how
11 those were mathematically manipulated and what the
12 output was and assessing whether or not that was
13 reasonable, is the approach that I used to fulfill
14 my responsibilities as part of this -- this
15 appointment.

16 Q. So let me give you an example, see if
17 we can kind of refine our conversation a little
18 bit. Take a single revenue stream like property
19 tax revenue.

20 A. Okay.

21 Q. Okay. Do you understand that you can
22 look at historical evidence of property tax
23 revenue collections and then apply just individual
24 judgment to the different components of it in
25 order to forecast property revenue into the

1 - MARTI KOPACZ - VOLUME 1-

2 future?

3 A. I agree with that, yes.

4 Q. That's a possible approach?

5 A. Yes.

6 Q. Correct?

7 A. Uh-huh.

8 Q. But separately, you can use a
9 statistical method like a time series forecast in
10 order to forecast future property revenues,
11 correct?

12 A. You could, yes.

13 Q. Let's describe those for purposes of
14 my question as two different methodologies, okay?

15 A. Okay.

16 Q. You never attempted to look at the
17 City's approach to any of the revenue streams and
18 say, they are using the wrong methodology,
19 correct?

20 A. That's correct.

21 Q. Now, within their methodology, what
22 you did do is you looked at the assumptions that
23 went into the methodology the City adopted and
24 determined the reasonableness of those
25 assumptions, correct?

1 - MARTI KOPACZ - VOLUME 1-

2 A. That's correct.

3 Q. Okay. And I take it as a corollary
4 of that, you don't have an opinion as to whether
5 the City utilized the correct methodology, not
6 assumptions, in forecasting the revenue that it
7 forecasted, correct?

8 A. I accepted the methodology, whatever
9 that may be, that the City used and evaluated the
10 result of that methodology, plus the inputs and
11 the assumptions.

12 Q. Okay. You did not attempt to
13 critique whether they employed the correct
14 methodology, correct?

15 A. I don't know that there is a correct
16 methodology, so --

17 Q. Okay.

18 A. -- the answer is I don't know.

19 Q. So, you don't know if there is one so
20 you couldn't have critiqued it, right?

21 A. I think that's correct.

22 Q. Okay. Now, have you -- you know that
23 the City's forecasts in one form or another, they
24 go back to the prefiling period 2013, correct?

25 A. In terms of their preparation?

1 - MARTI KOPACZ - VOLUME 1-

2 see a material risk that the City will fail to
3 live up to the plan's forecasts, correct?

4 A. Again, I don't -- the City can meet
5 its obligation -- I believe the City can meet its
6 obligations in the plan of arrangement and deliver
7 services, okay, within the confines of the
8 projections.

9 I don't believe for a minute that the
10 projections will come in exactly as they've been
11 forecast.

12 Q. I understand. But in the aggregate,
13 you would not have rendered your opinion if you
14 believed a material risk of failure existed,
15 correct?

16 A. That is correct.

17 Q. When it comes to evaluating the
18 City's obligations, the ability to meet its
19 obligation, Ms. Kopacz, in order to get your seal
20 of approval, would you agree that you needed
21 really to confirm that the actual results would
22 not turn out to be materially worse than the
23 forecasted results; that's what you're assessing,
24 right?

25 A. I'm not assessing future actuals. I

1 - MARTI KOPACZ - VOLUME 1-

2 Q. Uh-huh.

3 A. Okay? And the average are, in fact,
4 the numbers that you recited in the beginning of
5 this section --

6 Q. Right.

7 A. -- 0.85, but it shows, if you will,
8 a -- for each of the types of income tax,
9 resident, nonresident and corporation, it makes
10 individual assumptions for each year.

11 Q. Correct.

12 A. Okay? So there's -- there's a lot
13 that goes into that.

14 Q. Okay.

15 A. Okay? To get to that average.

16 Q. But in terms of historical data that
17 you used to judge reasonableness --

18 A. Right.

19 Q. -- did you rely on any historical
20 data of taxable income other than fiscal years
21 2011 to '13?

22 A. Did we -- I'm -- I'm pretty confident
23 that we looked at a much longer time frame on
24 taxable income revenues.

25 Q. Historical?

1 - MARTI KOPACZ - VOLUME 1-

2 A. Historical.

3 Q. You believe that you did?

4 A. Because if there was a down and
5 there's then beginning to tick up now.

6 Q. Okay. So do you know what the
7 ten-year historical taxable income was in the
8 City?

9 A. Not off the top of my head.

10 Q. Now, what you present here is that
11 residents' taxable income growth averaged
12 3.4 percent for that three-year period, correct?

13 A. Right, right.

14 Q. And that is -- that's more than
15 quadruple the assumed average, right?

16 A. It is the estimate for fiscal '14/'15
17 is about half of that rate. Okay?

18 Q. Right. So --

19 A. But mathematically, the ten-year
20 average, right, is, what, a third of what it's
21 been the last couple of years or more?

22 Q. Does it make sense to you that the
23 City's residents' taxable income growth tails off
24 substantially after the first two years?

25 A. It does in the sense that I think

1 - MARTI KOPACZ - VOLUME 1-

2 the -- the assumption is based on the recovery in
3 income from the recession in '08 and '09, and even
4 before that, the -- the deterioration in the
5 economy in Southeast Michigan as a result of the
6 automotive thing. So there's a period now where
7 incomes are coming back up and -- but to assume
8 that that trajectory continues for ten years would
9 be an aggressive assumption.

10 Q. So, is it that 2011, 2012 and 2013,
11 because they come on the heels of the recession,
12 are not representative --

13 A. As a percentage.

14 Q. -- years when it comes to projecting
15 future income growth?

16 A. That would be -- I believe that's the
17 assumptions that Ernst & Young made in this, and I
18 would conclude that it was -- that's a reasonable
19 assumption to make, that you're not going to
20 continue that high rate of increases ad infinitum.

21 Q. Take -- sorry. Take a look at fiscal
22 year 2016 for residents. The projected taxable
23 income growth is .46 percent, right?

24 A. Correct.

25 Q. That's about one-ninth of the

1 - MARTI KOPACZ - VOLUME 1-

2 three-year trailing average, correct?

3 A. I don't know what the -- the -- I'd
4 have to do that math, but it's a half percent
5 versus 3 1/2, right?

6 Q. Right. What's the basis for your
7 conclusion that that's a reasonable assumption for
8 fiscal year 2016?

9 A. As -- as I said, I think it is --
10 it's appropriate, it's reasonable. It's
11 reasonably conservative to make the assumption
12 that at some point the percentage of growth will
13 begin to flatten out in terms of income growth.

14 Q. Understood that that's your general
15 opinion, but how do you specifically arrive at
16 .46 percent?

17 A. I did not.

18 Q. I understand.

19 A. This is -- right. This is what -- I
20 looked at this and said, you know, does that look
21 reasonable in the context of everything we know,
22 and -- and I concluded that I am not -- that that
23 assumption is reasonable in the context of trying
24 to project income tax over the next ten years for
25 the City.

1 - MARTI KOPACZ - VOLUME 1-

2 Q. So let's break it down.

3 As to how Ernst & Young got .46
4 percent, you don't know, correct?

5 A. I -- I don't know specifically,
6 correct.

7 Q. But in evaluating whether,
8 irrespective of how they got it, whether that
9 number was reasonable, you came to the conclusion
10 that it was?

11 A. I did.

12 Q. What's the basis for that conclusion?

13 A. The basis for that conclusion is that
14 the City has been increasing income tax over the
15 last few years.

16 Q. Increasing income tax?

17 A. Municipal income taxes have been
18 growing.

19 Q. The revenues?

20 A. The revenues have been growing.

21 Q. Not the rate?

22 A. Not the rate. The rate stayed the
23 same.

24 Q. Got it. Sorry to interrupt.

25 A. Okay? They have been growing --

1 - MARTI KOPACZ - VOLUME 1-

2 Q. To test the reasonableness of your
3 assumption?

4 A. I don't know how you would test the
5 assumption until after it happens.

6 Q. Okay. But if the -- if the Court
7 wants to test your finding that this is a
8 reasonable assumption, you're not aware of a way
9 it can test it, correct?

10 A. No, I am not.

11 Q. Okay. So what is your basis, though,
12 for finding that 1.25 percent is a good average?

13 A. I looked at all of the information
14 that was available, okay, about all of these
15 topics, all of these assumptions, both the revenue
16 side and the expense side. I looked at the recent
17 tax history. I talked to the people who made the
18 assumptions, asked them questions about how they
19 came up with this assumption or that assumption or
20 what they did and, you know, how much if you
21 changed this, how much would that change. Okay?
22 And concluded that, in totality, the estimates
23 contained in the projections provide a reasonable
24 basis for forecasting what the City is going to do
25 from an economic perspective during the life of

1 - MARTI KOPACZ - VOLUME 1-

2 this -- these projections.

3 Q. Understood.

4 A. And I didn't -- you know, again --

5 Q. You didn't -- did you not consider
6 whether any individual assumption was reasonable
7 standing by itself? You only considered them in
8 the aggregate?

9 A. I looked at all of the individual
10 assumptions.

11 Q. You did?

12 A. I did. Okay?

13 Q. Okay. So let's talk about this one.

14 A. Right.

15 Q. What's your basis for your opinion
16 that 1.25 percent appears reasonable?

17 A. This -- it is reasonable because it
18 is not either too low or too high when you look at
19 all the surrounding data points.

20 Q. What are those data points?

21 A. It is the prior experience in terms
22 of what's been collected over time, all that,
23 right? It's looking at information that comes
24 from the state.

25 Q. Okay.

1 - MARTI KOPACZ - VOLUME 1-

2 A. I know we looked at some federal
3 estimates, right?

4 Q. So what was the prior experience with
5 income with average wage growth?

6 A. I would have to go back and look at
7 the historical information that we looked at at
8 the time to be able to answer that today because I
9 don't recall.

10 Q. But do you have like workpapers that
11 show that?

12 A. There would be documents that we
13 looked at that showed that. I'm sure.

14 Q. Okay. And they'll be -- they'll be
15 somewhere on Exhibit 2?

16 A. Tell be somewhere on Exhibit 2 or
17 they'll be somewhere in the -- in the data room.

18 Q. Okay. And what did they show? You
19 can't remember the specifics, but what time period
20 did they show?

21 A. I can't remember. I remember that
22 income taxes went down and income taxes have
23 started to grow back.

24 Q. Okay. Was it aggregate income tax
25 data that you reviewed?

1 - MARTI KOPACZ - VOLUME 1-

2 A. I don't recall.

3 Q. Do you remember when we were looking
4 at taxable income growth you had some historical
5 comparisons that you showed here in your text,
6 right?

7 A. That's correct.

8 Q. But here you didn't present any,
9 correct, in the body of your report?

10 A. There are other data points shown on
11 Page 47.

12 Q. Aren't those forecasted data points?

13 A. They are forecasted data points.

14 Q. Okay. Did you rely on any
15 historical -- so is -- are these the data points
16 that you relied upon these forecasts?

17 A. These are forecasts made by other
18 forecasting entities that we looked at to analyze
19 and assess the forecasts for wage growth and on
20 Page 48 for employment growth that the City used.

21 Q. Okay. So, for example, in the
22 ten-year without reinvestment scenario, do you see
23 that box on Page 47?

24 A. Yes.

25 Q. First of all, was your basis for

1 - MARTI KOPACZ - VOLUME 1-

2 analyzing this assumption -- and by "this
3 assumption," I mean the 1.25 percent assumption.

4 A. Right. Without reinvestment.

5 Q. Was it the -- was it these forecasted
6 data points from other entities?

7 A. I'm sorry. Repeat that question,
8 please.

9 Q. Let me turn it around.

10 A. Yes.

11 Q. Did you rely on any historical
12 information relating to wage growth in reaching
13 your opinion that 1.25 percent was reasonable?

14 A. I consider -- I am sure that we
15 considered historical information in looking at
16 the totality of these assumptions, okay?

17 Q. So it's part of the basis for your
18 opinion that it's reasonable is the historical
19 data relating to wage growth for residents and
20 nonresidents, correct?

21 A. There is -- there is some relevance
22 to historical data relative to these current
23 estimates, okay?

24 The -- without reinvestment
25 assumptions, okay, are not particularly meaningful

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1 - MARTI KOPACZ - VOLUME 1-

2 to me because I believe the City is going to make
3 reinvestment decisions, okay?

4 So, I mean we -- we analyzed this or
5 we laid out in our report the way the City had
6 laid it out, okay? As a practical matter, the --
7 what I think is relevant is the ten-year plan with
8 the reinvestment.

9 Q. Okay. So is it fair to say that you
10 not focus as hard on the ten-year plan without
11 reinvestment as you did the ten-year plan with
12 reinvestment?

13 A. That is correct.

14 Q. Okay. Do you know what? Let's talk
15 about -- well, let's just first note that the --
16 do you -- I'm sorry if I reasked this. I don't
17 mean to.

18 The -- do you see that on Page 47 you
19 produced comparable metrics from the Michigan
20 Department of Treasury, the Michigan Senate Fiscal
21 Agency and the CBO, which means the Congressional
22 Budget Office?

23 A. The Congressional Budget Office,
24 right.

25 Q. Do you know whether their metrics are

1 - MARTI KOPACZ - VOLUME 1-

2 were?

3 A. I am not seeing that here.

4 Q. Do you know separate and apart from
5 the presentation here?

6 A. I don't.

7 Q. Let's go down to employ -- sorry.
8 Let's go down to Employment Growth. Do you see
9 that the number of city residents that are
10 employed is forecasted to increase .15 percent?

11 A. Can you tell me where we are?

12 Q. Yes. It's on Page 46 right down
13 below "Employment Growth with RRIs. It's in the
14 prose section, the number of city residents
15 employees forecasted to increase .15 percent. Do
16 you see that?

17 A. Over a ten-year period, yeah.

18 Q. Yes. For the fiscal year period.

19 While the nonresidents' average
20 annual employment is anticipated to increase
21 .21 percent. Do you see that?

22 A. Yes.

23 Q. Now, in -- this is one of those
24 sections in your report where you are just
25 narrating what the assumptions are, correct?

1 - MARTI KOPACZ - VOLUME 1-

2 A. That is correct.

3 Q. You did not make a finding in your
4 report that these two assumptions were reasonable
5 specifically, correct?

6 A. Correct.

7 Q. Do you -- did you make a specific
8 finding that these two assumptions were
9 reasonable?

10 A. I did not.

11 Q. Is it -- am I correct in reading your
12 report that if there is a section that
13 describes -- like this one, that describes what
14 the City's assumptions are, but does not include
15 your specific seal of approval as to finding that
16 the specific assumption being discussed, that I
17 should infer that you did not make a specific
18 finding about that assumption?

19 A. I did not make a specific finding
20 about 2.16 or any of that sort of thing. What I
21 did is, as I said before, I looked at all the
22 information that was available to us, historical,
23 projections, talked with people who did this,
24 looked at other people who make projections about
25 these things. I did the sensitivity analysis that

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1 - MARTI KOPACZ - VOLUME 1-

2 said what if they're off by a percentage point one
3 way or another, what does that do? Okay? And in
4 totality of looking at all of that stuff, I
5 concluded that this is a reasonable assumption
6 for, in this case, municipal income tax.

7 Q. Well, wait. I would rephrase that
8 and see if you agree with how I rephrase it.

9 You included that in the aggregate
10 all of the assumptions were reasonable, correct?

11 A. Correct.

12 Q. You did not make a specific finding
13 or conclusion about whether this assumption on
14 Page 46 regarding employment growth was
15 reasonable, correct?

16 A. That is correct. I looked at a
17 what-if scenario, the -- the estimate was off.
18 Now, how -- if -- if that estimate is off, right,
19 by some amount, does that have a -- what kind of
20 an impact does that have on the overall projection
21 for income tax?

22 Q. Okay. So speaking to your expertise
23 in terms of what your training and experience
24 renders you capable of doing, you are capable of
25 assessing whether or not a forecasted increase of

1 - MARTI KOPACZ - VOLUME 1-

2 RRIIs was lower than with RRIIs, correct?

3 A. That's correct.

4 Q. Okay. With respect to the population
5 assumptions in the forecasts, is it correct that
6 the ten-year projections assume that there will be
7 a 12.3 percent decline in Detroit's population
8 over the next ten years?

9 A. That is the SEMCOG estimate and
10 that's what the City used.

11 Q. So the City relied on SEMCOG,
12 correct?

13 A. Correct.

14 Q. Do you -- you did not make a specific
15 finding in this section as to whether that
16 population assumption was a reasonable one. Do
17 you agree?

18 A. I accepted that as a given.

19 Q. Okay. You accepted it as a given.
20 You did not otherwise test its reasonableness,
21 correct?

22 A. I did not.

23 Q. Okay. Do you know -- have you read
24 SEMCOG's report?

25 A. I did not personally read it.

1 - MARTI KOPACZ - VOLUME 1-

2 A. At some time prior to this, okay, my
3 team's relationships with Ernst & Young and Conway
4 got frayed okay? And there were, this was
5 basically all of the parties being called to
6 chambers to be instructed to play nicely in the
7 sand box.

8 Q. So did Judge Rosen initiate this
9 meeting?

10 A. Judge Rosen initiated this meeting.

11 Q. So he called you and said I want to
12 clear the air?

13 A. Yes, you're not playing we will
14 continue sand box with the other children.

15 Q. He said that to you?

16 A. Yes generally that's, that's he
17 didn't, he didn't use those words but it was like
18 we need to have a conversation now. By the time
19 we get to this meeting of which there was already
20 this kind of dinner party plan, that same with Mr.
21 Ravitch --

22 Q. There was already the plan for the
23 dinner party?

24 A. This was, actually, that night was to
25 be this group and E & Y and Conway didn't

1 - MARTI KOPACZ - VOLUME 1-

2 participate in the dinner. But that was to be the
3 dinner in which I was going to -- and Mr. Ravitch
4 were meeting with Dan Gilbert. All right. He
5 canceled last minute. So we all went anyway.

6 But, yes, it was -- that was -- that
7 was the way that I got on his calendar was for the
8 Blustein's to throw a dinner party.

9 Q. So what happened at the meeting that
10 was called because there was -- whatever, tempers
11 were flaring or whatever?

12 A. Yes. By the time we got to the
13 meeting, we had already worked out our issues and
14 our differences.

15 Q. And so everyone was kind of like,
16 we're good?

17 A. We're good. And we talked -- at that
18 point in time we talked a lot about where my
19 thinking was on the feasibility standard.

20 Q. In this meeting with Judge Rosen?

21 A. Uh-huh.

22 Q. What did Judge Rosen say during this
23 meeting?

24 A. I'm not sure that Judge Rosen said a
25 whole lot. It was mostly a dialogue with Jones

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- MARTI KOPACZ - VOLUME II-

Q. In reviewing the transcript from yesterday, I believe Mr. Stewart asked you at the start if you had any misgivings or any conclusions that you weren't confident about in your report.

Given the past day and a half of questioning, do you have anything?

A. I'm still -- no, I'm still really comfortable with what we did, given the scope of our assignment, given the best information available. And I really haven't changed any of my thoughts in the last day and a half.

MR. WAGNER: Very good. I have no further questions. I yield to others.

MR. BRILLIANT: I'm not going to have very much time. Do you want to take a few-minute break and we'll switch seats.

THE VIDEOGRAPHER: The time is 11:16 a.m. We're going off the record.

(Whereupon, there was a brief recess in the proceedings.)

THE VIDEOGRAPHER: The time is 11:26 a.m. We're back on the record.

EXAMINATION BY MR. BRILLIANT:

- MARTI KOPACZ - VOLUME II-

Q. And you didn't do anything to analyze whether DWSD would have the financial capability to make the payments; you just relied on the assumption they could make the payments?

A. Yes.

Q. And you -- and because you didn't review any DWSD financial projections, you have no opinion as to whether any financial projections are reasonable; isn't that right?

A. That's correct.

Q. And you have no opinion as to whether or not DWSD is viable after confirmation of the plan, do you?

A. Like I said, I don't have any perspective or point of view on DWSD.

Q. Okay. So when you say in your report that the plan is feasible, you mean this the plan as relates to the general fund is feasible based on the assumptions contained in your report, but you have no opinion as to whether the DWSD portion of the plan is feasibility; is that correct?

A. That's correct.

Q. Mr. Neal had asked you about conversations that you had with respect to

- MARTI KOPACZ - VOLUME II-

Q. Ms. Kopacz --

THE VIDEOGRAPHER: Your microphone, sir.

Q. I'm going to try to just fill in some gaps and try not to repeat things and I hope we can do this pretty quickly.

So the first thing I wanted to ask you about is with respect to the DWSD, in answering some questions from Mr. Neal you said that the only thing that you looked at in connection with DWSD was in connection with the -- the pension payments; is that right?

A. That's correct.

Q. And what did you do in connection with that? You just assumed that DWSD would make the payments?

A. I had conversations with the City and the City's professionals and conversations with -- I know counsel to the retirement systems and to some of the people that were involved in that.

Q. And basically you just made the assumption that DWSD would be able to make those payments?

A. I did.

- MARTI KOPACZ - VOLUME II-

monetization of DWSD.

A. Yes.

Q. And he'd asked you about conversations with Miller Buckfire.

A. Yes.

Q. And he asked you about conversations with Conway and Mackenzie.

A. Yes.

Q. Were there conversations that you had about the monetizations of DWSD with anybody else?

A. Not to my recollection.

Q. When was it that you decided that the feasibility analysis would only be limited to the general fund and -- and not to the enterprise funds?

A. Because the plan of adjustment projections only relate to the general fund.

Q. Okay. But when -- so when was the decision that you would only -- 'cause in the disclosure statement, right, there's -- there's the 10- and 40-year projections for the general fund, correct?

A. Right. Yes.

Q. And then -- and then there are also

25 (Pages 515 to 518)

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1 - MARTI KOPACZ - VOLUME II-
 2 concern, do you think you would have listed that
 3 in your report?
 4 A. Yes.
 5 Q. Okay. Did you speak with anybody
 6 from Siegel Consulting in -- in creating your
 7 report?
 8 A. I did not.
 9 Q. Okay. Do you know who Siegel
 10 Consulting is?
 11 A. I do not.
 12 MR. ALBERTS: Okay. I have no
 13 further questions.
 14 MR. KANE: I want to ask you just a
 15 couple of questions for the record, just to
 16 clean up a couple of things.
 17 EXAMINATION BY MR. KANE:
 18 Q. So one is you were asked yesterday
 19 about prior expert testimony.
 20 Do you remember that?
 21 A. I was. I do.
 22 Q. To your knowledge, is your prior
 23 expert testimony was that disclosed in your
 24 application that was filed with the Court?
 25 A. It was.

1 - MARTI KOPACZ - VOLUME II-
 2 Q. Is that what you did?
 3 A. That is what I did.
 4 Q. Paragraph 3, I'm going to paraphrase,
 5 says you're not supposed to do anything else
 6 unless the Court orders you to do it.
 7 Do you agree with that
 8 characterization?
 9 A. Yes. Paragraph 2 above, are the only
 10 matters that the Court's expert is authorized --
 11 authorized to investigate, reach a conclusion on
 12 or testify about.
 13 Q. Has the Court ever ordered you to
 14 prepare your own financial projections for the
 15 City or take the data underlying the City's
 16 financial projections and apply other valuation
 17 methodologies, approaches -- I should say
 18 projection or forecasting methodologies or
 19 approaches to it?
 20 A. No.
 21 MR. KANE: Thank you. That's it.
 22 THE VIDEOGRAPHER: Anybody on the
 23 phone have any questions?
 24 Okay. Thank you. This concludes the
 25 August 1st, 2014 videotaped deposition of

1 - MARTI KOPACZ - VOLUME II-
 2 Q. Okay. You were asked yesterday about
 3 not preparing your own financial projections and
 4 not taking the data underlying the City's
 5 projections and applying other methodologies or
 6 approaches or pharmaceutical double blind issues
 7 to them.
 8 Do you remember that?
 9 A. I do.
 10 Q. Take out Exhibit 2 to your
 11 deposition.
 12 So, look at Paragraph 2B. And what
 13 is -- what is that -- Exhibit 2 is the order
 14 appointing you as the Court's independent expert,
 15 correct?
 16 A. Yes.
 17 Q. What does Paragraph 2B direct you to
 18 do with respect to the financial projections?
 19 Can you just read it?
 20 A. Yes. "The Court's expert witness
 21 shall investigate and reach a conclusion on, B,
 22 whether the assumptions that underlie the City's
 23 cash flow projections and forecasts regarding its
 24 revenue, expenses and plan payments are
 25 reasonable."

1 - MARTI KOPACZ - VOLUME II-
 2 Marti Kopacz, day 2 of this deposition.
 3 The time is approximately 12:43 p.m.
 4 We're off the record and finished for the
 5 day. There are three DVDs to today's
 6 deposition.
 7 (Whereupon, the deposition concluded
 8 at 12:43 p.m.)
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Exhibit B

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

In re:
City of Detroit, Michigan,
Debtor,

Chapter 9
Case No. 13-53846
Hon. Steven W. Rhodes

**EXPERT REPORT OF MARTHA E.M. KOPACZ
REGARDING THE FEASIBILITY OF THE CITY OF DETROIT PLAN OF
ADJUSTMENT**

On April 22, 2014, Judge Rhodes entered an Order¹ appointing me as the Court's expert witness. Pursuant to that Order, "(t)he Court's expert shall investigate and a reach a conclusion on:

(a) Whether the City's plan is feasible as required by 11 U.S.C. § 943(b)(7);

and

(b) Whether the assumptions that underlie the City's cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable."

I am providing this Report under Fed. R. Evid. 706(a). Should additional information become available, I reserve the right to amend or supplement this Report.

¹ Docket #4215, Order Appointing Expert Witness

Section A – Introduction, Scope and Approach

Introduction

I am a Senior Managing Director with Phoenix Management Services, LLC (“Phoenix”), Boston, MA and my *curriculum vitae* is attached as Exhibit 1. I have been assisted throughout this engagement by my colleagues from Phoenix. My billing rate is \$595 per hour and the billing rates of my colleagues range from \$100 per hour to \$550 per hour. As a courtesy, we are reducing our rates by 10% in this case. I have testified previously as noted in my proposal.²

Scope and Approach

The scope of my engagement is limited to providing an opinion *only* as to feasibility of the Plan of Adjustment (“POA” or “Plan”) of the City of Detroit (“Detroit” or the “City”). My engagement does not include providing an opinion regarding the best interest of creditors. There is little applicable case law related to what constitutes feasibility in a chapter 9 proceeding and even less guidance on my

² Docket #4068, Notice Regarding Interviews of Expert Witness Applicants, pages 266-267

role as the Court's independent expert. As such, I developed an approach for this assignment based upon my professional experience and taking into account the facts and circumstances of this matter that I believed to be most relevant. In large measure, I and my team, ("we") have followed the outline contained in my proposal, which is included below.³

- Understand the framework and methodology used to prepare the Ten-Year Plan including reliance on historical information
 - Conduct interviews of key personnel and financial advisors
 - Review documentation used to develop the forecasts
 - Review other third party information to independently verify assumptions
- Perform a detailed analysis of the Plan's financial and cash flow forecasts to determine baseline and critical assumptions
- Critique and analyze critical assumptions - those that have significant dollar and/or timing impact and, if not achieved, could decrease cash flow significantly
 - Revenue and/or cash receipts
 - Cost cutting initiatives
 - Reinvestment initiatives and capital spending
 - Interest rate variations
 - Provisions for contingencies
- Evaluate the execution risks associated with the Ten-Year Plan
 - Availability of financial and human capital
 - Reasonableness of timing assumptions
 - Reasonableness of dollar impact (cost or benefit)
 - Adequacy of contingencies
- Perform sensitivity analysis related to the forecast and critical assumptions, as appropriate, to better assess the achievability of the projections
- Form an opinion as to the feasibility of the Ten-Year Plan, as presented

³Docket #4068, Notice Regarding Interviews of Expert Witness Applicants, pages 256-257

- Prepare a written report supporting the opinion including additional information that facilitates communication and understanding by stakeholders of the likelihood of Plan success and the potential risks associated with Plan execution

We began with stakeholder interviews amongst the groups listed below. The “Contact Log” as directed in Judge Rhodes’ Order, is included as Exhibit 3. This fact- and perception-gathering phase was important to understanding the current situation with the City, the status of bankruptcy case and how the City was approaching its restructuring.

- City of Detroit elected and appointed officials (including the Mayor, City Council President, Chief Financial Officer, Chief of Police and department heads)
- Emergency Manager
- City employees
- City of Detroit retained advisors
 - Jones Day
 - Ernst & Young
 - Conway MacKenzie
 - Miller Buckfire & Co.
- City’s retirement systems (PFRS and GRS) and their advisors
- City’s public safety labor unions and their advisors
- Creditor constituencies and their advisors
- Detroit Land Bank Authority
- Detroit Institute of Art and their advisors
- Charitable foundations and City benefactors

We then approached the analytical phase, which was iterative. We reviewed and analyzed documents relevant to the City’s Plan and the financial projections. We reviewed other City data and third party information to provide background and

perspective on the Ten Year (“10 Yr”) and Forty Year (“40 Yr”) projections and the Restructuring and Reinvestment Initiatives (“RRIs”). We asked more questions of the City, its advisors and other stakeholders, requested more information, and analyzed that information. This process was repeated as necessary until our questions were answered. Some general categories of data, documents and information we reviewed and analyzed are identified below. A more complete listing is included in Exhibit 2.

- Court Documents – POA, Disclosure Statement, City Motions and Creditors’ Objections, Eligibility Opinion, Court Orders, Court Docket
- May 5, 2014 and July 2, 2014 10 Yr projections, 40 Yr projections and RRIs, including working models
- Third Party Reports
 - Detroit Blight Removal Task Force Plan
 - Detroit Future City Strategic Framework Plan
 - Consulting reports – McKinsey
 - State and various task force reports on Detroit’s financial condition
 - Various federal, state and regional government reports

We critiqued the methodology used to develop the financial projections, as well as the data and information used as the foundation for the assumptions. An explanation of these models is contained in Part II, Section E. We identified the assumptions used to create the June 2013 Baseline Projections and the assumptions that formed the 40 Yr projections. We identified and analyzed the assumptions contained in the RRIs and tested both projections (May 5th and July 2nd) for mathematical integrity.

My assessment focused primarily on operations that are accounted for in the City's General Fund. In addition to the City's General Fund activities, the City has numerous operations that are accounted for in Enterprise Funds. Only Enterprise Funds that have an impact on the City's General Fund were evaluated to determine their impact on the feasibility.⁴

The Report

This Report is comprised of four parts. Part I includes my opinion and the building blocks I used to formulate that opinion. This includes background and contextual information that underpin my assessment as well as the definition I and my team formulated for "feasibility" which establishes the framework for my opinion. Part I includes Sections A through D.

Part II is comprised of Sections E through H and provides insight into the quantitative factors that impact my feasibility assessment. Part III consists of

⁴For example the Detroit Department of Transportation (DDOT) operates primarily as an Enterprise Fund but receives a significant subsidy from the General Fund to fund negative cash flow in the Enterprise Fund; therefore, the failure of DDOT to achieve its plans directly impacts the City General Fund.

Sections I through O and include those issues that affect feasibility in a qualitative manner. Part IV contains the Conclusion. A Table of Contents follows.

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Section B – Statement of Expert’s Opinion

On April 22, 2014, Judge Rhodes entered an Order⁵ appointing me as the Court’s expert witness. Pursuant to that order, “(t)he Court’s expert shall investigate and reach a conclusion on:

(c) Whether the City’s plan is feasible as required by 11 U.S.C. § 943(b)(7);

and

(d) Whether the assumptions that underlie the City’s cash flow projections and forecasts regarding its revenues, expenses and plan payments are reasonable.”

This Report contains my expert opinion and the basis for that opinion. I was assisted by my colleagues at Phoenix Management Services LLC. My work has been guided by the approach that was outlined in my proposal⁶ and discussed during

⁵ Docket # 4215, Order Appointing Expert Witness

⁶ Docket # 4068, Notice Regarding Interviews of Expert Witness Applicants, pages 256 and 257

my interview on April 18, 2014⁷. I, and members of my team, have conducted more than two hundred interviews and fact gathering meetings with persons involved in this matter or with persons I believed to be helpful to me in forming my opinion.

Based on this work, I conclude that:

- (a) The City's plan is feasible as required by 11 U.S. C. § 943(b)(7); and
- (b) The assumptions that underlie the City's plan of adjustment projections regarding its revenues, expenses and plan payments are reasonable.

It should be noted that this opinion is rendered in an environment where there are many factors that will have influence on the City's conditions post confirmation that are unknown and unknowable. Throughout this Report, I have noted some of these factors, while other factors may not even be recognized today as potentially having an impact. My opinion is necessarily limited by these unknown factors. It should be recognized, that these factors, when known, could have a material impact on my view of feasibility.

The above statement should only be viewed in the context of this entire Report. No reliance should be made on these statements outside of the context of this Report.

⁷ Transcript of Hearing, April 18, 2014

The remainder of this Report will provide my definition of feasibility, the context in which I am rendering my opinion and my assessment of the key factors affecting my feasibility assessment. While my opinion is arguably very narrowly limited to “feasibility”, the assessment I and my team did to arrive at my opinion is multifaceted. This Report attempts to clearly and succinctly lay out the foundation, framework and details supporting my opinion.

The following section, Section C, addresses my definition of feasibility and relies upon numerous resources – legal and otherwise – and my own experience to establish the benchmarks against which I assessed feasibility. Section D discusses the context in which I am rendering my opinion. While there are common experiences among every restructuring and even among municipalities, the unique mix that is Detroit and this chapter 9 proceeding, necessarily impact my perspective and opinion. My intent is not to rehash every issue or pleading that has occurred in this case or even Detroit’s recent history, but rather, to highlight a few aspects of the facts and circumstances of this case which have had an important impact on the formulation of my opinion. The last sections of the Report provide a more in depth review of the issues, quantitative and qualitative, I found particularly relevant to my assessment of feasibility. By no means does this Report include every factor I reviewed or considered but does include those issues that shaped my opinion to the greatest extent.

Section C – Feasibility Definition

Defining a Feasibility Standard

Section 943(b)(7) of the Bankruptcy Code requires that before a plan of adjustment may be confirmed the Court must determine that the plan is feasible. However, the Bankruptcy Code does not define “feasible.” Few chapter 9 cases address the feasibility requirement⁸ and there is little in the way of authoritative writing published regarding feasibility.⁹

In assessing feasibility, I have examined available legal authority and consulted with counsel and other experienced professionals to assist in the formation of an appropriate approach to determining feasibility of the City’s POA. Every

⁸ In re *Mount Carbon Metropolitan District*, 242 B.R. 18, 31 (Bankr. D. Colo. 1999) (“The Code does not define feasibility in Chapter 9 nor does it specify what factors the Court should consider in determining whether the Plan is feasible. Due to the relative rarity of Chapter 9 cases, neither the parties nor the Court have found case law specifically addressing the issue.”)

⁹ Pryor, Scott C., Who Bears the Cost? The Necessity of Taxpayer Participation in Chapter 9, (June 11, 2014) Available at SSRN, <http://ssrn.com/abstract=2448997>. The author referring to feasibility: “(w)hat is merely unclear in chapter 11 is an impenetrable fog in chapter 9.”

restructuring professional, with some degree of experience, probably believes they understand what feasibility is and what it is not. However, in my early discussions with professionals in this case, my own research, and consultations with professionals not involved in the Detroit matter, I found a variety of nuanced points of view regarding a definition of feasibility. Therefore, while it will ultimately be up to the Court to articulate the precise legal parameters of feasibility in this Case, I, along with the Phoenix team, have developed the following feasibility definition (the “Standard”), which I believe is crucial to serving the Court’s purpose for my appointment:

‘Is it likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default?’

Two Dimensions of the Standard

While I believe that there are certain imposed limitations on feasibility within this Standard, I have taken a relatively structured approach to my view of what is included in feasibility. The Standard includes both quantitative and qualitative components:

Quantitative

- Are the projections contained in the POA mathematically correct and materially reasonable?
- Are the assumptions that the City has used to develop its projections individually, and when taken as a group, reasonable?
- Is there an adequate contingency included in the projections?

Qualitative

- Does the City have the human resources, or can it likely recruit the human resources, required to meet its obligations under the POA?
- Does the City have the appropriate systems and procedures to monitor its financial performance and to provide early warning signs of variances in performance that might cause the City to fall short of the projections and be unable to meet its obligations under the POA?
- Are there appropriate structures to ensure the City's compliance with the POA and with reasonable government standards of operation?
- Will the City be able to reasonably deliver a minimum level of municipal services?
- Is the City's trajectory sustainable?

The quantitative assessment of feasibility is straightforward but exacting. As will be more fully discussed in Part II, the projections¹⁰ in the POA are (correctly

¹⁰ For purposes of this Report, "projections in the Plan" are inclusive of the 10 Yr plan, the 40 Yr plan and the RRI's. If only one of these is discussed, it will be noted. The term "forecast" is often used as a synonym for "projections". While this is not technically correct within accounting literature, the terms will be used interchangeably in this Report to provide variety. The term "model" is used in this Report to describe the one or more excel spreadsheets that together form a financial projection. A "values only model" or "flat model" is essentially a printout of the excel spreadsheets, although it may be provided in electronic format rather than in hard copy. A "working model" contains all the cell references, formulas and

so) quite detailed in many areas. Financial modeling is a highly subjective undertaking that is affected by the assumptions made and the professional biases of the analyst developing the model. Financial modeling is both a science and an art. When the analyst forecasts growing revenue, declining costs, or a change in headcount, he or she has a number of ways to write the mathematical formulas which arrive at the intended numbers. In this case, the POA projections are comprised of multiple forecasts, inclusive of hundreds of individual spreadsheets, prepared by many different individuals and then concatenated into what we all simply call the “projections”¹¹. Simple questions, such as “are the salaries used to determine the cost of newly hired employees reasonable?” become detailed. For example, the salary estimates are multifaceted depending on which model and which analyst did the modeling and appear in many of the RRI projections. Because of this, the

“macro” commands that are within the spreadsheets and allows a reviewer of the model to understand what the inputs and assumptions are that create the projections. It is in the working model that a reviewer can understand the “art” of the analyst’s modeling.

¹¹ Expert Report of Charles M. Moore, CPA, CTP, CFF in re City of Detroit, Michigan. In footnote 2, Mr. Moore provides a similar explanation of modeling methodology: “Given the number and diversity of the departments my team and I examined, the specific methodology utilized was not exactly the same for each department. Notwithstanding any particular deviations that were necessary, this core methodology and approach was generally utilized across our analysis and development of the Reinvestment Initiatives.” This is an example of differences that can occur within a model built by the same firm. There were also differences in modeling approach used by Conway MacKenzie, Mr. Moore’s firm, and Ernst & Young, the City’s other financial advisor.

quantitative assessment of “reasonableness” surrounding the individual assumptions, and assumptions taken as a group, of the POA projections was more involved than I would have expected.

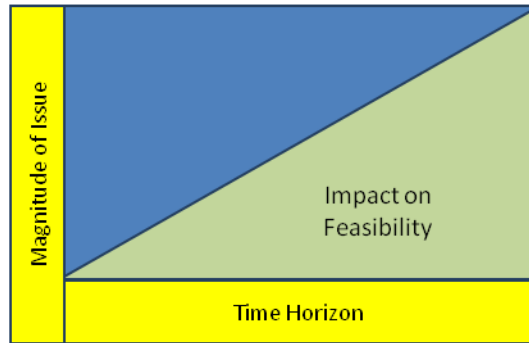
The qualitative aspects of the Standard include what I have come to refer to, as “skill and will” and are as important as the quantitative assessment. Qualitative aspects also include external influences that can affect the implementation of the Plan. Part III, Section K – Leadership and Human Capital, discusses the City’s need for more highly skilled employees. Another qualitative issue is the upcoming transition from the leadership of the Emergency Manager to the leadership of Mayor Duggan and his administration. When that transition occurs, there will be little more than three years remaining within which the current elected officials will have the responsibility to operate the City consistent with the POA – therefore political ‘will’ must be passed to future elected officials. This is not a problem limited to Detroit, but to all municipal proceedings. Section M – Post-Confirmation Oversight discusses ways to mitigate this variable.

The Aspect of Time on the Standard

A municipal government is an entity designed to exist in perpetuity. Therefore, as we considered feasibility there is a requirement to determine the timeframe for the feasibility assessment. As we developed the feasibility Standard, we considered the following questions:

- Given the electoral system and the requirement for strong leadership, do we limit the timeframe to the next election cycle?
- Is there some other timeframe at which feasibility stops? For example, if after 5 years, visibility into the operations of the City becomes more opaque, do we only consider the first 5 years?
- Do we consider the timeframe over which financial commitments are made in the POA? That is, do we look at the restructured pension obligations of the retirees and current employees and attempt to determine whether the POA is feasible during their entire lifetimes?

Ultimately, we based our Standard on an indeterminate time period. However, I believe that the issues of feasibility must be viewed both in terms of their quantitative or qualitative impact and the time horizon over which the impacts may occur. That is, as the time horizon expands, so too does the magnitude required for an issue to impact feasibility. For example, a potential \$50 million shortfall in year 1 will have a much more significant impact on the assessment of feasibility than the same shortfall in year 20.



The Standard Allows for a Range of Values

An additional aspect to my definition of feasibility is the concept that the reasonableness of the quantitative and qualitative components of the Standard can be a range of values. When looking at the reasonableness of assumptions and projections, most people understand that “reasonable” can exist along a continuum. Projections can be reasonable and favor the views of the debtor and projections can be reasonable and favor the views of creditors. Of course, at the outer edges of “reasonable”, values become unreasonable, either because they are exceptionally conservative or wildly aggressive. We have evaluated the assumptions imbedded with the financial forecasts within this continuum of reasonableness.

Detroit differs from a company emerging from chapter 11 in that the City does not have to be service delivery solvent to emerge from bankruptcy. It will be on a

trajectory towards service delivery solvency¹² and in some areas, the current level of service is adequate. I do not need to envision that Detroit will become a best in class municipality to determine that the POA is feasible. For Detroit, emerging from essential services failure to adequate and reasonable service delivery will be a success.¹³

What Feasibility is Not

When we developed the feasibility definition, we also considered what feasibility does not include. First, and foremost, feasibility is not a guarantee. If the City were to propose a plan under which, based on reasonable assumptions, the City could not help but meet its obligations – effectively a guaranteed outcome – it is likely that while feasible, such plan would not satisfy the best interests of creditors test under section 943(b)(7) of the Bankruptcy Code.¹⁴

¹² Eligibility Opinion of Judge Rhodes

¹³ Anderson, Michelle Wild “The New Minimal Cities” <http://yalelawjournal.org/article/the-new-minimal-cities>; March 2014

¹⁴ The “best interest test of creditors” is specifically outside the scope of my appointment and as such, is not part of the opinion I have formed. See Docket #4215, Order Appointing Expert Witness, ¶¶2 and 3.

Similarly, but at the other end of the spectrum, a feasible plan should avoid visionary schemes primarily based on “mere hopes, desires and speculation”¹⁵. Further, the Court must determine whether there is a reasonable prospect of successful completion of the proposed plan.¹⁶ As a point of reference, a frequently cited legal standard for feasibility in Chapter 11 is whether the factual showing at the plan confirmation hearing establishes a “reasonable assurance of success,” though “success need not be guaranteed.”¹⁷

Lastly, I do not believe the Standard entails: (1) whether the projections in the POA may generate more cash to distribute and therefore provide greater recoveries for creditors or (2) whether there may be alternative plans that could produce a better outcome for the City or its creditors. During my team’s evaluation of feasibility, we have been exposed to numerous views on these subjects. Because this is outside my scope and not included in our Standard, I have not attempted to form, nor have I formed, any opinion on these matters.

¹⁵ 242 B.R. 18 (1999) in re Mount Carbon Metropolitan District.

¹⁶ Lawall, Francis J. and Miller, J. Gregg, Debt Adjustments for Municipalities Under Chapter 9 of the Bankruptcy Code, a Collier Monograph, 2012.

¹⁷ Case, Stephen H., Some Confirmed Chapter 11 Plans Fail, So What?, 47 B.C. L. Rev. 59 (2005), <http://lawdigitalcommons.bc.edu/bclr/vol47/iss1/4>.

In summary, the Standard we have defined includes both quantitative and qualitative assessments of feasibility, including a risk assessment measured against a time horizon and allows for a reasonable range of values within the projections. This Standard is the backdrop against which the remainder of this Report should be read.

Section D - Context

This section of the Report attempts to identify some of the contextual parameters for my expert opinion. The role as the Court's expert on feasibility is both vast and specific, and subsumed within a unique set of facts and circumstances surrounding the City of Detroit, its history and plethora of challenges. Included amongst these topics are:

- The impact of the bankruptcy process on the feasibility assessment
- An "as is" perspective of Detroit which anchors my opinion
- An explanation of what the Plan of Adjustment is and is not
- Identification of factors that affect my opinion separate and apart from the proposed POA

Bankruptcy Process Impact

I am humbled and honored to have been selected as the Court's expert in this matter. The speed with which this restructuring and bankruptcy case has progressed is nothing short of extraordinary. The speed has been both an advantage and a disadvantage to the feasibility of the POA.

The restructuring profession generally views quick trips through the bankruptcy process to be advantageous for a variety of reasons: less distraction of the management team, lower professional costs, more negotiated (vs. litigated) solutions, quicker payments to creditors, and less uncertainty for employees and vendors. This could all be true with the Detroit case.

However, I believe the speed of this proceeding has negatively impacted the level of feasibility of the POA. This bankruptcy has been largely focused on deleveraging the City, often to the exclusion of fixing the City's broken operations. The bilateral mediations between the City and the creditor groups worked well to quickly deliver settlements of key disputes. However, the lack of time available for multiparty negotiation has resulted in settlements that, taken in total, greatly reduce the contingency available in the Plan. Pain sharing is an important component of the restructuring process that helps ensure that all the stakeholders appreciate the "size of the pie" as opposed to creating the proverbial "win-lose" tug of war between the debtor and the creditor.

Detroit “As Is”

Detroit is at a tipping point. While some may consider the chapter 9 filing as the low point in this great City’s history, I believe that it was the beginning of creating what can become a virtuous cycle of revitalization, improving economics and quality of life betterments for those who choose to live and work within the City. It is hard to imagine that people with such diverse political and socio-economic perspectives would have come together as they have in this process without the bankruptcy filing. Traditional political maneuverings are working to Detroit’s advantage and residents have the prospect of once again living in a community that is more safe and supportive. Black, white, Republican, Democrat, poor, wealthy, educated, illiterate and everyone in between have an opportunity to contribute to the virtuous cycle of revitalization, or not.

The City of Detroit’s chapter 9 filing has justifiably received extensive attention across international media and within legal and financial circles. The outcomes will be referenced extensively for years, for what was accomplished and arguably, what could have been accomplished during the proceedings. As the largest chapter 9 to date, if any municipality ever needed the protection and tools of the bankruptcy process, it is Detroit. At every level, Detroit was failing as a city – as measured by the shrinking of its population, useful infrastructure and purposeful

enterprises - and as a government – as measured by its inability to deliver essential services. Having spent a large amount of time in Detroit since my appointment, my interaction with citizens, City employees and stakeholders in the bankruptcy have influenced my view of both the in-court restructuring and the out-of-court work that is equally important to Detroit’s ability to effectuate its POA.

The Plan of Adjustment

Even after many years of practice with dysfunctional, insolvent, operationally troubled enterprises, I was confused by the City’s projections in POA. Section E of this Report provides detail on how the projections and RRI’s are structured. Suffice it to say that the “10 Yr projections”, the “10 Yr/40 Yr projections,” and the “Restructuring and Reinvestments Initiatives” form an unusual construct for a financial plan for an enterprise attempting to emerge from bankruptcy. The baseline projections (“10 Yr projection, Exhibit J to the Disclosure Statement) were prepared in June 2013 to show what would happen to the City without a restructuring, which they did very well. The “10 Yr/40 Yr projection” (Exhibit K in the Disclosure Statement) expands the baseline, steady state projection for the 40 Yr time horizon of the POA. Then, in order to begin to understand how the restructured Detroit might operate – delivering services and paying creditors – one must factor in the RRI’s

contained in Exhibit J to the Disclosure Statement. This is convoluted and contributes to the feelings amongst many creditors in this case that the financial projections in the POA are a “black box” and that it was the City’s intent to obfuscate important information. I choose to believe that it was simply an unfortunate result of two advisory firms sharing responsibilities¹⁸ rather than one firm “owning” the financial projections start to finish, as is, and should be, the norm.

The City’s Plan of Adjustment is primarily limited to a “balance sheet” restructuring, as chapter 11 veterans would characterize it, and it includes only some of the City’s operations. This is loosely analogous to a company that files a bankruptcy for the parent company and some, but not all, of the subsidiaries. The chapter 9 proceeding has been overwhelmingly focused on deleveraging the City for the long term, reducing future obligations. That is good. However, the operational restructuring that often occurs with commercial reorganizations will be left largely to Mayor Duggan and his managers for the post confirmation period. That is

¹⁸Ernst & Young, originally retained by the City of Detroit in May 2011, and Conway MacKenzie, originally retained by the City of Detroit in January 2013, have served the City post-petition in a collaborative arrangement. Each firm has taken responsibility for certain aspects of typical debtor “financial advisory” services and the firms work well together. No comments herein should be construed as criticism of this collaboration; rather, I believe it would have been preferable for a single firm to have prepared a single, integrated financial projection for the POA.

unfortunate but is understandable given the speed with which this bankruptcy has occurred and the Emergency Manager's priorities during his similarly short tenure.

Readers of the POA should view the Plan projections as a "sources and uses" statement which describes cash available to fund delivery of some of the services the City provides and certain payments to creditors. As such, these projections are useful only for purposes of confirming the POA (or not, as the case may be) and directionally providing guidance for the City to plan its finances going forward for those operations that are addressed in the POA. It is important to understand that the POA projections are not a business plan for the City. They are not the City's budget. They are not the "financial plan" referenced in Public Acts 181 and 182 of 2014, also referred to as the "Grand Bargain" legislation.

The confusion about the projections in the POA and these other financial plans is evident within the City including its employees, amongst the media and the stakeholders. The projections in the POA have not been harmonized with the City's budget that was passed by the City Council on June 5, 2014. As such, any funding of the RRI's will require first identification of a funding source, and then approval by the CFO and Mayor, and finally, approval by the City Council of a budget amendment to support the appropriations. Although the City has many financial reporting priorities, it is highly advisable that the budget department amend the

approved June budget for the numerous anticipated changes post confirmation, harmonizing the current headcounts and spending levels with the RRIIs that the City intends to execute in the coming year, and submit a new budget to the City Council for approval.

The sooner the City can divorce itself from the confusion created by the POA projections, the better. The City needs a multi-year Business Plan which can act as a single financial and operational plan, including all departments and enterprise activities (of which an amended budget would be a part) as well as capital plans that can be publicly communicated and compared to actual performance. A “bridge” should be prepared which identifies the components of the POA projections that are included in the City’s Business Plan and then the POA projections can be archived.

Another confusion I believe exists in the POA is the investment plan for infrastructure and service delivery improvements that are required to revitalize the City. Those funds will necessarily come from reducing costs of existing service delivery either through efficiency improvements or elimination of activities. The media has created the impression that the City’s investment of more than \$1 billion over the course of the coming years is a “given”. This is incorrect. There is no funding source for these investments, including blight removal, other than the Exit

Financing¹⁹ and the projected structural surplus in the POA projections; that is: the projected revenues must exceed the projected expenses of the City for the foreseeable future. It is important that readers of the POA understand there is no cash in a bank account to fund the RRI's. The cash for the investments will come from the Mayor and the departmental leaders delivering services as economically and efficiently as the POA forecasts.

Outside Factors of Influence

I can say, unequivocally, that without the positive and capable leadership of Mayor Duggan and the constructive relationship between the City Council and the Mayor, I would be unable to opine that the plan, as currently proposed, is feasible. The near term future will require course adjustments as undoubtedly revenues and expenses will vary from projections and unforeseen events will demand changes in plans. The democratic system has put in place individuals who, at least for the next three years, can choose to continue the positive course for the City. I believe they will do so.

¹⁹ The City's investment banker, Miller Buckfire & Co. has prepared solicitation materials as is the process of sourcing this financing.

Southeast Michiganders and Detroiters are extensively engaged in civic and charitable pursuits that benefit the revitalization of Detroit. While detractors cite crime rates and nonfunctioning public works, there are a similar group of enthusiastic, impassioned supporters of Detroit's bright future. Two tangible examples are the Detroit Future City plan and the Blight Task Force report. Each of these privately funded efforts resulted in professionally stellar frameworks that current and future elected officials should consider as components of Detroit's master plan. I find it encouraging that there are the underpinnings of business plans for the City which can be blended with financial plans to improve the prospects of success.

In addition, the level of private funds invested in Detroit annually is significant. During my interviews, one executive estimated that private foundations, collectively, spend between \$150-\$200 million annually on "public" works to support investments in the safety, health and welfare and economic development within the City of Detroit. This level of funding is significant to the overall revitalization efforts outlined in the POA.

Section E - City of Detroit Financial Forecast Summary

Introduction

The City's Plan of Adjustment incorporates multiple, interrelated financial forecasts that must be individually and collectively evaluated in order to fully understand how the City intends to operate after a confirmation of the Plan of Adjustment. These forecasts, which vary in both duration and intended scope, emanated from the various City professional advisors and their original responsibilities. To fully appreciate the operating plan for the City, Phoenix has reviewed each of the financial forecasts and has worked with the City and its professionals to understand how each of these documents bridge to one another.

The Plan of Adjustment's financial forecasts are as follows:

1. Plan of Adjustment – Ten Year Financial Projections (the “10 Yr Plan”),
2. Plan of Adjustment – Forty Year Financial Projections (the “40 Yr Plan”)
3. Plan of Adjustment – Restructuring and Reinvestment Initiatives (the “RRIs”)
4. City of Detroit – Triennial Executive Budget (“City Budget”)

Plan of Adjustment – Ten Year Financial Projections

The 10 Yr Plan, built and modified by Ernst & Young (“E&Y”), is the City’s financial forecast for the fiscal years 2014-2023. This plan was originally developed to show how Detroit would operate exclusive of the chapter 9 bankruptcy proceeding. That is, it is effectively the baseline plan. This forecast was built on a department level basis and does not include the quantitative impacts of the restructuring initiatives, the cancellation of debt, the cash flow ramifications from the alterations in the City’s pension plans and OPEB²⁰, and other impacts of the bankruptcy proceedings.

The City and its advisors produced, as part of the Fourth Amended Plan for the Adjustment of Debts of the City of Detroit and the corresponding Fourth Amended Disclosure Statement (dated May 5, 2014), an updated version of the 10 Yr Plan which reflected the then most current forecast assumptions and terms of negotiated agreements. In light of the incremental negotiations, modified forecast assumptions and other changes, a newer 10 Yr Plan (in concert with an updated 40 Yr Plan and modified RRIs) has been produced by the City advisors and is dated July 2, 2014. For the purpose of this Report, Phoenix used the July 2, 2014 version

²⁰ Other Post Employment Benefits

of the City's financial forecasts. The following analysis²¹ identifies the quantifiable variances between the most recent iterations of the City's financial forecasts. While the net of all changes only impacted the Plan by \$5.2 million, on an absolute value basis, the July 2nd version of the 10 Yr Plan contains changes that are in aggregate \$491 million versus the May 5th version for the FY2014-2023 time period.

²¹ The analysis is sourced from the 5.5.14 POA and 7.2.14 POA and figures are from the bibliography: Conway Mackenzie Models:1-54 and Ernst & Young Models 8-11

	7.2.14 POA vs 5.5.14 POA	
	10 Year Variance	Absolute Value Change
<u>Base Model Revenue</u>		
State Revenue Sharing	\$ 36.6	\$ 36.6
Wagering Taxes	\$ (13.1)	\$ 13.1
Property Taxes	\$ (15.7)	\$ 15.7
Sales and Charges for Services	\$ (0.9)	\$ 0.9
Total Base Model Revenue	\$ 6.9	\$ 66.3
<u>Base Model Operating Expenditures</u>		
DDOT Subsidy	\$ (59.7)	59.7
Delay in Payroll Processing	\$ (4.4)	4.4
PLD LED Lights	\$ (2.7)	2.7
Total Base Model Operating Expenditures	\$ (66.8)	\$ 66.8
A. Total Changes to Base Model	\$ (59.9)	\$ 133.1
<u>Reinvestment Revenue</u>		
GSD Grant	\$ 5.7	\$ 5.7
Total Reinvestment Revenue	\$ 5.7	\$ 5.7
<u>Reinvestment Operating Expenditures</u>		
Fire Department Labor Change	\$ (49.8)	\$ 50.7
Police Department - Adjust Avg Salary to Act. in Base Forecast	\$ 22.5	\$ 22.5
Fire Department- Adjust Avg Salary to Act. in Base Forecast	\$ 45.2	\$ 45.2
All Other Labor	\$ 1.5	\$ 2.5
DPD - Increase in Annual Facility Costs of New Precincts	\$ (6.2)	\$ 6.2
Training	\$ (1.1)	\$ 1.1
Purchased Services	\$ (0.7)	\$ 0.7
Total Reinvestment Operating Expenditures	\$ 11.4	\$ 129.0
<u>Capital Investments</u>		
Police Fleet Spending	\$ 10.0	\$ 10.0
GSD Facility Maintenance and Other Capex	\$ 6.1	\$ 6.1
Deferral of Airport Bay Upgrades and T-Hangars	\$ 5.0	\$ 5.0
R&M Fire Dept Facilities	\$ 3.0	\$ 3.0
Rec Facilities	\$ 2.5	\$ 2.5
311 System	\$ 0.6	\$ 0.6
Total Capital Investments	\$ 27.3	\$ 27.3
B. Total Changes to RRI's	\$ 44.4	\$ 162.0
<u>Potential Deals</u>		
Public Safety 3% Bonus in FY 16	\$ (5.6)	\$ 5.6
OPEB now \$1MM for PFRS	\$ 11.7	\$ 11.7
Pension now 12.25% of wages	\$ (21.1)	\$ 21.1
Total Potential Deals	\$ (15.0)	\$ 38.4
<u>Non Operating</u>		
Adjusted Note B	\$ (55.0)	\$ 55.0
Add Note A2	\$ 6.1	\$ 6.1
QOL Exit Financing P&I	\$ 85.1	\$ 85.1
Deferrals	\$ (10.7)	\$ 10.7
Contingency	\$ (0.2)	\$ 0.2
Total Non Operating	\$ 25.3	\$ 157.1
C. Total Changes due to New Deals/Non Operating	\$ 10.3	\$ 195.5
Total Net Change (A+B+C)	\$ (5.2)	\$ 490.6

Plan of Adjustment – Forty Year Financial Projections

The 40 Yr Plan, also built and modified by E&Y, is the financial forecast for the fiscal years 2014-2053 that purports to indicate the City's performance over the next 40 years. Contrary to the 10 Yr Plan, the 40 Yr Plan includes the impact of the RRIs, the cancellation of debt, the cash flow ramifications from the alterations in the City's pension plans and OPEB, and other impacts of the bankruptcy proceedings. The 40 Yr Plan has not been built by department and is only a summary of the overall expected City performance.

Plan of Adjustment - Restructuring and Reinvestment Initiatives

The Restructuring and Reinvestment Initiatives have been constructed and amended by Conway Mackenzie ("CM") following CM's City-wide departmental review begun in January 2013. The reinvestment initiatives include funding for additional City personnel and operating requirements, targeted capital expenditures, and blight removal. In total, the RRIs assume the City will invest approximately \$1.7 billion in restructuring initiatives. This \$1.7 billion of investment is funded in part by \$483 million of incremental revenue generated as a result of the RRIs and \$358 million of anticipated costs savings from the execution of the RRIs over the FY2014-2023 period. The remaining funding source for the RRIs will be generated by operating City surpluses and the Exit Financing. The process to develop these

detailed initiatives included highly detailed inputs, risks, constraints and other factors in how the initiatives will be implemented.

City of Detroit - Triennial Executive Budget

The City annually develops a Triennial Executive Budget that forecasts the financial operations of the City for the subsequent three fiscal years. This budget historically forms the basis for how the City intends to operate on a departmental level and is developed in line with historical government reporting protocols. The Triennial Budget is developed in a manner that allows for reconciliation with the City's fund accounting²² and only includes items for which funding has been received, approved and allocated. The City's FY2015 budget was unanimously approved by the Detroit City Council on June 5, 2014.

The timing of the City's annual budget cycle, including review and approval by the City Council, and the timing of the bankruptcy proceedings created a bit of a

²² Governmental fund accounting is beyond the scope of this Report. However, the reader should appreciate that 1) government accounting standards can vary significantly from those used in the private sector, 2) fund accounting can sometimes create artificial classifications of revenues and expenses that do not resemble how the entity operates on a regular basis and 3) the City's POA projections were prepared separately from the City's Triennial Budget. In the past few weeks, the City's budget team and the financial advisors have worked to reconcile the major differences between the POA projections and the City's budget.

conundrum for the FY2015 budget. As such, the FY2015 budget does not reflect many of the POA proposals, including most of the RRIIs and the revised debt service requirements. This may create a procedural bottleneck in that funding for the RRIIs will require first, approval by the Emergency Manager, Mayor and Chief Financial Officer,²³ and then a budget amendment to be approved by the City Council.

Phoenix Review

Phoenix has thoroughly reviewed each of the above identified forecasts. In addition, numerous meetings have been held to discuss the forecasts with the City, E&Y, and CM. While Phoenix appreciates the inherent complexity of any financial forecast for an enterprise of this magnitude, a number of concerns regarding how the multiple forecasts impact one another warrants discussion.

First and most importantly, the City does not have a consolidated, departmental financial forecast that incorporates the baseline forecast and all of the POA proposals, specifically, the RRIIs. While the respective 10 Yr, 40 Yr, and RRI forecasts have been expertly researched, constructed, and amended, the fact remains

²³ This group is referred to as the “Approving Parties”. Procedures have been established to manage the RRI activities. The Approving Parties will assess the RRI funding requests from the various department heads for appropriateness, ensure that the City has the cash for fund the initiatives and allocate the money amongst the requested initiatives.

that the City does not have an aggregated forecast to use as a fiscal roadmap going forward. During our many meetings with City leadership and department heads, it was evident that the individuals responsible for delivering essential services did not have an adequate understanding of the POA impacts to their operations and the manner in which the RRIs would occur.

I have participated in the budget review meetings with the Mayor, the department heads and their respective teams and believe that the sooner the POA projections, in their current form, can be archived, the better. Although improving, there is still a gap in the understanding by the department heads, relating to their budgets and the impact the RRIs will play in what they will be responsible for in the future. In the next few years, the funding for the RRIs is largely, if not exclusively, dependent on the Exit Financing. At this point, we understand the Exit Financing is not committed and the amount and terms have not been determined. For purposes of my assessment and resulting opinion, I have assumed that Exit Financing will be available in an amount sufficient to implement the POA as set forth in detail later in this Report.

Section F - Revenue and Macro Assumptions

Summary²⁴

The City of Detroit's Plan of Adjustment include 10 Yr revenue projections for the fiscal years 2014-2023 and 40 Yr revenue projections for the fiscal years 2014-2053 ("40 Yr Plan"). The 10 Yr Plan revenues were forecasted including and excluding the assumed accretive impact of the proposed RRIs detailed in the Plan of Adjustment. As illustrated below, the total revenues projected in the 10 Yr Plan - exclusive of the impact of the RRIs - is \$10.4 billion; alternatively, the 10 Yr Plan's cumulative revenues inclusive of the impact of the RRIs is \$11.2 billion.

	FY2014-2023				FY2024-2033				FY2034-2043				FY2044-2053			
	Without Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment		With Reinvestment	
General Fund Revenues																
Municipal income tax	\$	2,566	25%	\$	2,770	25%	\$	3,510	29%	\$	4,591	32%	\$	6,059	35%	
State revenue sharing	\$	2,000	19%	\$	2,000	18%	\$	2,121	18%	\$	2,307	16%	\$	2,533	15%	
Wagering taxes	\$	1,733	17%	\$	1,733	15%	\$	1,906	16%	\$	2,105	15%	\$	2,325	13%	
Sales and charges for services	\$	1,118	11%	\$	1,118	10%	\$	1,161	10%	\$	1,415	10%	\$	1,725	10%	
Property taxes	\$	964	9%	\$	1,074	10%	\$	1,370	11%	\$	1,640	11%	\$	1,903	11%	
Other revenue	\$	713	7%	\$	713	6%	\$	754	6%	\$	918	6%	\$	1,120	6%	
General Fund reimbursements	\$	260	2%	\$	260	2%	\$	239	2%	\$	291	2%	\$	355	2%	
Utility users'	\$	252	2%	\$	257	2%	\$	304	3%	\$	353	2%	\$	410	2%	
Department Revenue Initiatives	\$	-	0%	\$	483	4%	\$	586	5%	\$	715	5%	\$	871	5%	
Transfers in	\$	829	8%	\$	829	7%	\$	148	1%	\$	22	0%	\$	-	0%	
Total General Fund Revenues	\$	10,434	100%	\$	11,237	100%	\$	12,098	100%	\$	14,358	100%	\$	17,302	100%	

²⁴ Unless otherwise stated the financial projections referenced in section F are sourced from the bibliography: Ernst & Young Models: 10-11

The analyses below will identify the City's individual revenue components (on an annual and cumulative basis), the estimated growth for each revenue category over the time periods of both forecasts, and the key assumptions utilized for each revenue category. The following analyses will also identify and compare, where applicable, third party assumptions for various operating metrics (e.g. wages, employment, population, etc.) as they relate to the assumptions the City used to derive these forecasts. Finally, this revenue analysis provides sensitivity scenarios designed to illustrate the variability of the revenue forecasts as underlying assumptions are changed.

Municipal Income Tax

The City of Detroit, in accordance with the Michigan Public Act 284 of 1964, has been one of 22 Michigan municipalities to impose a municipal income tax on its residents, nonresidents working in Detroit, and resident businesses. The City's municipal income tax receipts, due to declines in population and the economy, have decreased by 30% since 2002. Municipal income tax revenues are forecasted to account for 25% of General Fund revenue in the FY2014-2023 period.

As mentioned above, the City's POA projections estimate revenues for the 10 year period covering FY2014-2023 with and without the incremental revenue impact

of the RRI's. The following analysis illustrates the “without Restructuring and Reinvestment Initiatives” scenario.

10 Yr Plan - Without RRI's

The City's 10 Yr Plan forecasts annual municipal income tax through the estimation of the year-over-year (“YoY”) growth in taxable income for the following subsections:

- City residents
 - Average annual YoY taxable income growth: 0.85%
 - Income tax rate: 2.4%
 - FY2014-2023 City resident income taxes: \$1,561 million
- Non-residents
 - Average annual YoY taxable income growth: 1.18%
 - Income tax rate: 1.2%
 - FY2014-2023 non-resident income taxes: \$761 million
- Corporations
 - Average annual YoY taxable income growth: 1.63%
 - Income tax rate: 2.0%
 - FY2014-2023 corporation income taxes: \$245 million

The taxable income growth assumptions appear to be reasonably conservative relative to the recent uptick in taxable income in FY2011-2013. For Detroit residents, taxable income growth has averaged 3.4% annually for those three years. During the same period, taxable income growth has averaged 3.5% for non-residents and 2.2% for corporations. The annual taxable income growth during FY2011-2013

is likely reflective of the recovery from the 2008-2009 financial crisis, when the City's taxable income base suffered double-digit YoY percentage declines.

10 Year Plan – Municipal Income Tax (Without RRI's)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	FY2014-2023 Average/Total
Preliminary forecast											
City Residents (A)											
Taxable income growth	1.94%	1.45%	0.46%	0.46%	0.46%	0.46%	0.65%	0.65%	1.00%	1.00%	0.85%
Taxable income	\$ 6,294.0	\$ 6,385.5	\$ 6,414.7	\$ 6,444.0	\$ 6,473.5	\$ 6,503.3	\$ 6,545.8	\$ 6,588.6	\$ 6,654.5	\$ 6,721.1	\$ 65,025.1
Income tax rate	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	<u>2.4%</u>	
Total City Resident income taxes	151.1	153.3	154.0	154.7	155.4	156.1	157.1	158.1	159.7	161.3	1,560.6
Non-Residents (B)											
Taxable income growth	2.23%	1.70%	0.70%	0.70%	0.70%	0.69%	0.50%	1.19%	1.69%	1.69%	1.18%
Taxable income	\$ 6,065.0	\$ 6,168.1	\$ 6,211.2	\$ 6,254.5	\$ 6,298.0	\$ 6,341.7	\$ 6,373.4	\$ 6,449.4	\$ 6,558.5	\$ 6,669.3	\$ 63,389.0
Income tax rate	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	<u>1.2%</u>	
Total Non-Resident income taxes	72.8	74.0	74.5	75.1	75.6	76.1	76.5	77.4	78.7	80.0	\$ 760.7
Corporations (C)											
Net tax collection growth	2.34%	2.50%	2.00%	2.00%	2.00%	1.50%	1.00%	1.00%	1.00%	1.00%	1.63%
Taxable income (implied)	\$ 1,128.3	\$ 1,156.5	\$ 1,179.6	\$ 1,203.2	\$ 1,227.3	\$ 1,245.7	\$ 1,258.2	\$ 1,270.7	\$ 1,283.5	\$ 1,296.3	\$ 12,249.3
Corporate tax rate	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	
Net tax collections	22.6	23.1	23.6	24.1	24.5	24.9	25.2	25.4	25.7	25.9	\$ 245.0
Total Municipal income taxes (D) = (A+B+C)											
Taxable income	\$13,487.3	\$13,710.2	\$13,805.5	\$13,901.7	\$13,998.8	\$14,090.7	\$14,177.4	\$14,308.8	\$14,496.5	\$14,686.7	\$ 140,663.5
Calculated tax rate	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	<u>1.8%</u>	1.8%
Total Municipal income taxes	246.4	250.4	252.1	253.8	255.5	257.1	258.7	260.9	264.1	267.3	\$ 2,566.3
Adjustment Municipal income taxes											
Adjustment for actuals	-	-	-	-	-	-	-	-	-	-	\$ -
Total Adjusted Municipal income taxes	\$ 246.4	\$ 250.4	\$ 252.1	\$ 253.8	\$ 255.5	\$ 257.1	\$ 258.7	\$ 260.9	\$ 264.1	\$ 267.3	\$ 2,566.3

The POA's 10 Yr projections "build up" the annual taxable income growth assumption by adding separate assumptions for annual wage growth and employment growth.

Wage Growth (Without RRI's)

The 10 Yr Plan estimates – for both the City residents and nonresident categories – an average wage growth of 1.25% for the FY2014-FY2023 period, an

estimate that appears reasonable when compared to the state and national forecasts highlighted below. The income growth forecast for corporations is 1.63% and is conservative relative to the State forecast. The Michigan Senate Fiscal Agency assumed an average 2.65% wage growth rate for Detroit which is reflective of the average state forecast of 3.65% reduced by a 1% structural adjustment for the City of Detroit.

Employment Growth (without RRI's)

The annual employment rate of City residents is forecasted to decline by 0.4% for the FY2014-FY2023 period. Non-residents' average annual employment is estimated to decrease by 0.07% for this time period. As was the case with forecasted wage growth, the employment growth assumptions seem reasonable when compared to the recent actual employment growth for the entire City of Detroit over the last three fiscal years which averaged 0.4%.

10 Year Plan – Municipal Income Tax (Without RRI's)

Taxable Income Growth Metrics

	2014	2015	2016	2017	Preliminary forecast						FY2014-2023 Average/Total
					2018	2019	2020	2021	2022	2023	
City Residents (A)											
Wage Growth	2.53%	2.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%
Employment Growth	-0.59%	-0.55%	-0.54%	-0.54%	-0.54%	-0.54%	-0.35%	-0.35%	0.00%	0.00%	-0.40%
Taxable income growth	1.94%	1.45%	0.46%	0.46%	0.46%	0.46%	0.65%	0.65%	1.00%	1.00%	0.85%
Non-Residents (B)											
Wage Growth	2.53%	2.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%
Employment Growth	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.31%	-0.50%	0.19%	0.69%	0.69%	-0.07%
Taxable income growth	2.23%	1.70%	0.70%	0.70%	0.70%	0.69%	0.50%	1.19%	1.69%	1.69%	1.18%
Corporations (C)											
State CIT forecast (SFA est. May 2013)	3.80%	5.70%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.65%
Detroit structural adjust.	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Net growth rate	2.80%	4.70%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.65%
Assumed Forecast Growth Rate	2.34%	2.50%	2.00%	2.00%	2.00%	1.50%	1.00%	1.00%	1.00%	1.00%	1.63%

10 Yr Plan with RRI's

The 10 Yr projections forecast annual municipal tax income through the estimation of the year-over-year (“YoY”) growth in taxable income for the following subsections:

- City residents
 - Average annual YoY taxable income growth: 2.32%
 - Income tax rate: 2.4%
 - FY2014-FY2023 City resident income taxes: \$1,693 million
- Non-residents
 - Average annual YoY taxable income growth: 2.37%
 - Income tax rate: 1.2%
 - FY2014-FY2023 non-resident income taxes: \$817 million
- Corporations
 - Average annual YoY taxable income growth: 2.65%
 - Income tax rate: 2.0%
 - FY2014-FY2023 corporations income taxes: \$260 million

Due primarily to the more optimistic City residents’ taxable income growth assumptions in the “With Reinvestment Initiatives” scenario, the latter scenario

assumes an additional \$204 million in municipal income tax revenue in the 2014-2023 time period. A Sensitivity Analysis is provided below to gauge the impact of the City's actual results materially deviating from the 10 Yr Plan's forecast.

10 Year Plan – Municipal Income Tax (With RRI's)

	2014	2015	2016	2017	Preliminary forecast						2023	FY2014-2023 Average/Total
					2018	2019	2020	2021	2022			
City Residents (A)												
Taxable income growth	2.57%	3.17%	2.25%	2.19%	2.15%	2.16%	2.18%	2.18%	2.18%	2.18%		2.32%
Taxable income	\$ 6,332.7	\$ 6,533.4	\$ 6,680.7	\$ 6,827.2	\$ 6,974.0	\$ 7,124.5	\$ 7,279.5	\$ 7,437.9	\$ 7,599.7	\$ 7,765.0		\$ 70,554.5
Income tax rate	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%		
Total City Resident income taxes	152.0	156.8	160.3	163.9	167.4	171.0	174.7	178.5	182.4	186.4		1,693.3
Non-Residents (B)												
Taxable income growth	2.91%	3.29%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%		2.37%
Taxable income	\$ 6,105.4	\$ 6,306.5	\$ 6,444.0	\$ 6,584.5	\$ 6,728.0	\$ 6,874.7	\$ 7,024.6	\$ 7,177.7	\$ 7,334.2	\$ 7,494.1		\$ 68,073.8
Income tax rate	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%		
Total Non-Resident income taxes	73.3	75.7	77.3	79.0	80.7	82.5	84.3	86.1	88.0	89.9		\$ 816.9
Corporations (C)												
Net tax collection growth	2.80%	4.70%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%		2.65%
Taxable income (implied)	\$ 1,133.4	\$ 1,186.6	\$ 1,234.1	\$ 1,271.1	\$ 1,296.5	\$ 1,322.5	\$ 1,348.9	\$ 1,375.9	\$ 1,403.4	\$ 1,431.5		\$ 13,004.0
Corporate tax rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%		
Net tax collections	22.7	23.7	24.7	25.4	25.9	26.4	27.0	27.5	28.1	28.6		\$ 260.1
Total Municipal income taxes (D) = (A+B+C)												
Taxable income	\$13,571.4	\$14,026.5	\$14,358.7	\$14,682.8	\$14,998.6	\$15,321.7	\$15,653.0	\$15,991.5	\$16,337.3	\$16,690.6		\$ 151,632.2
Calculated tax rate	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%		1.8%
Total Municipal income taxes	247.9	256.2	262.3	268.3	274.0	279.9	286.0	292.2	298.5	304.9		\$ 2,770.3
Adjustment Municipal income taxes												
Adjustment for actuals	-	-	-	-	-	-	-	-	-	-		\$ -
Total Adjusted Municipal income taxes	247.9	256.2	262.3	268.3	274.0	279.9	286.0	292.2	298.5	304.9		2,770.3

Wage Growth (with RRI's)

The 10 Yr projections estimate – for both the City residents and nonresident categories – an average wage growth of 2.16% for the FY2014-2023 period, or

roughly 91 basis points²⁵ higher than the “without RRI” scenario. The wage growth forecast for corporations is 2.65%, or equivalent to the Michigan Senate Fiscal Agency assumption.

Employment Growth (with RRIs)

The number of City residents employed is forecasted to increase 0.15% for the FY2014-2023 period, while the non-residents’ average annual employment is anticipated to increase 0.21% over this time period.

10 Year Plan – Municipal Income Tax (With RRIs)

Taxable Income Growth Metrics

	2014	2015	2016	2017	Preliminary forecast						FY2014-2023 Average/Total
					2018	2019	2020	2021	2022	2023	
City Residents (A)											
Wage Growth	2.53%	3.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.16%
Employment Growth	-0.13%	0.14%	0.25%	0.19%	0.15%	0.16%	0.18%	0.18%	0.18%	0.18%	0.15%
Taxable income growth	2.57%	3.17%	2.25%	2.19%	2.15%	2.16%	2.18%	2.18%	2.18%	2.18%	2.32%
Non-Residents (B)											
Wage Growth	2.53%	3.03%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.16%
Employment Growth	0.38%	0.26%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%	0.21%
Taxable income growth	2.91%	3.29%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.18%	2.37%
Corporations (C)											
State CIT forecast (SFA est. May 2013)	3.80%	5.70%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.65%
Detroit structural adjust.	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Taxable income growth	2.80%	4.70%	4.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.65%

²⁵ A basis point is equivalent to 0.01%; therefore 100 basis equals 1%

Comparable Assumptions

When comparing the City of Detroit's wage growth assumptions versus its state or national estimates, the POA's wage assumptions appear reasonable in light of the City's history of lagging state/national statistics.

<u>Comparable Metric Analysis</u>	
<u>Wage Growth</u>	
10 Year Plan - without Reinvestment	1.25%
10 Year Plan - with Reinvestment	2.16%
<u>State</u>	
Michigan Dept. of Treasury - FY2014	3.90%
Michigan Dept. of Treasury - FY2015	3.90%
Michigan Dept. of Treasury - FY2016	3.90%
Michigan Senate Fiscal Agency - FY2014	2.30%
Michigan Senate Fiscal Agency - FY2015	2.60%
<u>Federal</u>	
CBO - Real Wage Growth	2.47%

In a similar fashion to forecasted wage growth, the City's employment growth assumptions for FY2014-2023 are more conservative relative to the applicable State of Michigan forecasts and the City's recent actual results.

<u>Comparable Metric Analysis</u>	
<u>Employment Growth</u>	
10 Year Plan - City Residents - without Reinvestmer	-0.40%
10 Year Plan - Non-Residents - without Reinvestme	-0.07%
10 Year Plan - City Residents - with Reinvestment	0.15%
10 Year Plan - Non-Residents - with Reinvestment	0.21%
<u>State</u>	
Michigan Dept. of Treasury - FY2014	1.50%
Michigan Dept. of Treasury - FY2015	1.40%
Michigan Dept. of Treasury - FY2016	1.40%
Michigan Senate Fiscal Agency - FY2014	0.80%
Michigan Senate Fiscal Agency - FY2015	0.50%

Sensitivity Analysis

The following analysis illustrates the incremental impact to the City of Detroit's actual taxable income if there are deviations to the forecasted metrics in the 10 Yr Plan. For Municipal Income taxes, while multiple economic assumptions factor into the final estimates, the driving metric is the annual growth rate of taxable income. As such, the analysis below estimates the impact of a 1 percentage point change in the forecasted growth rate, up or down, for each category of income tax payer in both scenarios.

(\$ million)	Preliminary forecast										FY2014-2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
<u>For Every 1% Change in Annual Taxable Income Growth Rate</u>											
<u>Without Reinvestment</u>											
City Residents	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	15.5
Non-Residents	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	7.5
Corporations	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>2.4</u>
Total	2.4	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6	2.6	25.4
<u>With Reinvestment</u>											
City Residents	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	16.6
Non-Residents	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	8.0
Corporations	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>2.5</u>
Total	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.9	2.9	3.0	27.1

For the Without RRI's scenario, every 1 percentage point deviation in the 10 Yr Plan's assumption will result in an approximate \$25 million in collected income tax revenues variance for the FY2014-2023 period. Due to higher income tax forecast in the With Reinvestment Initiatives case, the estimated variance – as compared to the original 10 Yr Plan - increases to \$27 million over that ten year period in question.

State Revenue Sharing

The City of Detroit receives aid from the State of Michigan in connection with constitutional and statutory sharing of sales tax revenue and economic vitality incentive payments ("EVIP"). Per Michigan's constitution, the State is required to distribute 15% of all state taxes imposed on retailers. The constitutional revenue sharing is a function of a municipality's population relative to the other

municipalities in Michigan, while the statutory revenue sharing is distributed to municipalities that comply with certain “best practices” and reporting requirements.

	Preliminary forecast										10 Year
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
<u>State Revenue Sharing Calculations</u>											
Constitutional Payment	53.5	54.8	56.9	58.5	60.2	62.0	63.8	57.3	59.0	60.7	\$ 586.8
Statutory Payment	136.3	140.5	140.5	140.5	140.5	140.5	140.5	140.5	140.5	140.5	\$ 1,400.5
Estimated State Revenue Sharing	\$ 189.8	\$ 195.3	\$ 197.4	\$ 199.0	\$ 200.7	\$ 202.5	\$ 204.3	\$ 197.8	\$ 199.5	\$ 201.2	\$ 1,987.3
Other shared taxes (including liquor and beer license)	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 13.2
Total State Revenue Sharing	\$ 191.2	\$ 196.6	\$ 198.7	\$ 200.3	\$ 202.0	\$ 203.8	\$ 205.6	\$ 199.1	\$ 200.8	\$ 202.5	\$ 2,000.5

Constitutional Payments

The State of Michigan’s constitutional payments emanate from the statutory sharing of sales tax revenue and are based upon the population of Detroit (as measured by the decennial Census) as a percentage of the total State’s population. The constitutional payments are distributed every other month via a formula multiplying Detroit’s population by defined distribution rates.

The 10 Yr projections utilize Detroit’s population from the 2010 Census – 712,501 – to factor the State’s constitutional payment for the fiscal years 2014-2021. For FY2022 and FY2023, the 10 Yr Plan utilized the Southeast Michigan Council of Governments (“SEMCOG”) forecast which reflects a 12.3% decline in Detroit’s population to 625,152.

Statutory Payments

The State's EVIP funds are appropriated annually by the State Legislature and therefore carry more inherent risk than the mandated State constitutional payments.

The EVIP funds are allocated per the following categories:

- Category 1 – Accountability and Transparency
 - Each municipality is required by October 1st to produce a citizen's guide of its most recent local finances, including a recognition of unfunded liabilities, a performance dashboard, a debt service report, and a project budget report
- Category 2 – Consolidation of Services
 - Each municipality is required by February 1st to produce a service consolidation plan that is submitted to the Michigan Department of the Treasury; including details of service cooperation, consolidations, and privatizations with estimated cost savings
- Category 3 – Unfunded Accrual Liability Plan
 - Each municipality with unfunded accrual liabilities is required by June 1st to produce a plan to lower all such unfunded accrual liabilities; detailing previous actions taken and a go forward plan of existing and new initiatives

The 10 Yr projections assume that the City continues to receive 100% of its possible State allocation, or approximately \$140 million annually for the entire FY2014-2023 time period.

Sensitivity Analysis

The following analysis illustrates the incremental impact to the City if State Revenue Sharing deviates from the assumptions in the 10 Yr forecast. The analysis

below estimates the impact of a 5% change in the 2020 Census forecasted population and a 5% change in the statutory payment allocation. Because the constitutional payment is based on the 2010 Census figure through FY2021, the impact of a 5% population change would only be realized in FY2022 and FY2023. For the statutory payment, a 5% change in the allocation would have a cumulative impact of \$70 million to the General Fund during the FY2014-2023 period.

	Preliminary forecast											10 Year Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
<u>For Every 5% Change in Applicable State Revenue Sharing Metric</u>												
Constitutional Payment	-	-	-	-	-	-	-	-	3.0	3.0	\$ 6.0	
Statutory Payment	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	\$ 70.0	
Total State Revenue Sharing	\$ 6.8	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0	\$ 10.0	\$ 10.1	\$ 76.0	

The City of Detroit recently saw its portion of State's revenue sharing decrease significantly, from a combined annual total of \$267 million in FY2009 to as low as \$173 million in FY2012. While the State's revenue sharing to Detroit has increased in FY2013 and FY2014, the City remains susceptible to decreases in revenue sharing should the State's budget position change.

Wagering Taxes

The City of Detroit, per the Michigan Gaming Control and Revenue Act, is authorized to impose a 10.9% wagering tax on casinos operating within the City. In addition, the City collects other fees from the casinos in the City based on operating

agreements with each. Wagering tax revenues are forecasted to account for 17% of General Fund revenue in the FY2014-2023 period.

	2014	2015	2016	2017	Preliminary forecast						2023	10 Year Total
					2018	2019	2020	2021	2022			
<u>Wagering Taxes Drivers</u>												
% Change in Gross Receipts	-2.5%	-1.0%	0.5%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.3%
<u>Wagering Taxes Calculation</u>												
Adjusted Gross Receipts (A)												
MGM	\$ 565.4	\$ 559.7	\$ 562.5	\$ 565.3	\$ 571.0	\$ 576.7	\$ 582.5	\$ 588.3	\$ 594.2	\$ 600.1		\$ 5,765.8
Motorcity	445.6	441.2	443.4	445.6	450.0	454.5	459.1	463.7	468.3	473.0		\$ 4,544.4
Greektown	331.6	328.3	329.9	331.6	334.9	338.2	341.6	345.0	348.5	352.0		\$ 3,381.7
	<u>\$ 1,342.6</u>	<u>\$ 1,329.2</u>	<u>\$ 1,335.8</u>	<u>\$ 1,342.5</u>	<u>\$ 1,355.9</u>	<u>\$ 1,369.5</u>	<u>\$ 1,383.2</u>	<u>\$ 1,397.0</u>	<u>\$ 1,411.0</u>	<u>\$ 1,425.1</u>		<u>\$ 13,691.8</u>
Wagering Tax Rate (B)	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%		
Additional Payment (per 2006 operating agreement)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%		
Subtotal Wagering Tax (D) = (A)*(B+C)												
MGM	67.3	66.6	66.9	67.3	67.9	68.6	69.3	70.0	70.7	71.4		\$ 686.1
Motorcity	53.0	52.5	52.8	53.0	53.6	54.1	54.6	55.2	55.7	56.3		\$ 540.8
Greektown	39.5	39.1	39.3	39.5	39.9	40.3	40.7	41.1	41.5	41.9		\$ 402.4
Revenue Target Supplemental Wagering Tax (E)												
MGM	5.7	5.6	5.6	5.7	5.7	5.8	5.8	5.9	6.0	6.0		\$ 57.8
Motorcity	4.5	4.4	4.4	4.5	4.5	4.6	4.6	4.6	4.7	4.7		\$ 45.5
Greektown	-	-	-	-	-	-	-	-	-	-		\$ -
Total Wagering Tax (F) = (D+E)												
MGM	72.9	72.2	72.6	72.9	73.7	74.4	75.1	75.9	76.7	77.4		\$ 743.9
Motorcity	57.5	56.9	57.2	57.5	58.1	58.6	59.2	59.8	60.4	61.0		\$ 586.3
Greektown	<u>39.5</u>	<u>39.1</u>	<u>39.3</u>	<u>39.5</u>	<u>39.9</u>	<u>40.3</u>	<u>40.7</u>	<u>41.1</u>	<u>41.5</u>	<u>41.9</u>		<u>\$ 402.4</u>
Total Wagering Tax	<u>169.9</u>	<u>168.2</u>	<u>169.0</u>	<u>169.9</u>	<u>171.6</u>	<u>173.3</u>	<u>175.0</u>	<u>176.8</u>	<u>178.6</u>	<u>180.3</u>		<u>\$ 1,732.6</u>

As a result of the wagering tax rate (10.9%) and the additional 2006 tax rate (1.0%) being held constant, the key assumption in the 10 Yr forecast is the annual percentage change in casino gross receipts. The Detroit casinos have experienced increasing competition recently due to the openings of casinos in Cleveland and Toledo, Ohio resulting in declining wagering tax revenues for the City. The 10 Yr projections assume a 2.5% YoY decline in FY2014, a 1.0% decline in FY2015, a 0.5% annual increase in FY2016 and FY2017, and a 1.0% annual increase in FY2018-2023.

Through the first six calendar months of 2014, Detroit's aggregate casino revenues decreased 3.6% versus the same six month period in 2013. These actual results for the first six calendar months of 2014 represent a 110 basis points negative variance to the POA's FY2014 forecast and a 260 basis points negative variance to the FY2015 forecast.

Sensitivity Analysis

The following analysis illustrates the incremental impact of the City's actual Casino Wagering tax deviating from the assumptions in the 10 Yr projections. The analysis below estimates the impact of a 1% change, up or down, in the estimated casino gross receipts. The current projections assume casino gross receipts will average annual growth of 0.3% for FY2014-2023. Every 1 percentage point change in the gross receipts assumption will result in an approximate \$16 million variance in the FY2014-2023 period.

Preliminary forecast											10 Year Total
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
<u>For Every 1% Change in Gross Receipts</u>											
Annual Impact on Total Wagering Tax	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.7	16.2

Sales and Charges for Services

Detroit receives revenues for City delivered-services such as maintenance and construction, recreation, ambulance services, court fees, permits and licenses, etc. Nearly half of these revenues are reflected as “Non Departmental” (e.g. municipal servicing fees on gross wagering revenues, personal services IPOs). Sales and Charges for Services revenues are forecasted to account for 11% of General Fund revenue in the FY2014-2023 period.

	2014	2015	2016	2017	Preliminary forecast						10 Year Total
					2018	2019	2020	2021	2022	2023	
Non-Departmental	51.8	51.7	52.1	52.6	53.1	53.6	54.1	54.7	55.2	55.7	534.7
PLD	41.2	28.7	26.1	23.5	20.8	18.1	15.3	12.3	10.6	10.7	207.2
Fire	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	14.9	149.0
36th District Court	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	100.3
Police	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	45.8
General Services	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	23.1
Human Resources	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	22.5
Law	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	17.3
Health & Wellness	1.0	-	-	-	-	-	-	-	-	-	1.0
ITS	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	5.1
Other	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	12.0
Sales and charges for services	\$ 131.5	\$ 118.0	\$ 115.8	\$ 113.6	\$ 111.4	\$ 109.2	\$ 107.0	\$ 104.4	\$ 103.3	\$ 104.0	\$ 1,118.0
YoY \$ Change	\$ 7.7	\$ (13.5)	\$ (2.2)	\$ (2.2)	\$ (2.2)	\$ (2.2)	\$ (2.2)	\$ (2.5)	\$ (1.1)	\$ 0.7	
YoY % Change	6.2%	-10.3%	-1.9%	-1.9%	-1.9%	-2.0%	-2.0%	-2.4%	-1.1%	0.6%	

During the ten year period, the largest change relates to transitioning responsibility for the City’s street lights from the PLD to the Public Lighting Authority beginning in FY2014. When the seven year transition is complete, the City will no longer collect revenue from external customers. The balance of the revenue categories are assumed to remain relatively constant over the FY2014-2023 time period.

Property Taxes

The City of Detroit levies property taxes to fund general operations and support various tax obligations. Detroit also levies additional property taxes to fund the Detroit Public Library, Detroit Public Schools, Wayne County Community College, the State of Michigan, and a number of special authorities.

City of Detroit Millage

- Non-Departmental (General City): 19.9520 mills
- Debt Service: 9.771 mills
- Library: 4.631 mills

Property tax revenues are forecasted to account for approximately 9% of General Fund revenue in the FY2014-2023 period. As previously mentioned, the City's Plan of Adjustment estimates revenues for the 10 year period covering FY2014-2023 both with and without the incremental revenue associated with the RRI's. The following analysis illustrates the "without RRI's" scenario.

10 Yr Projections - Without RRI's

The City's forecasted property tax revenues, due to the relatively-constant millage rates, are largely predicated upon the assumed changes in assessed property values and the estimated collection rates going forward.

Assessed Property Values

The 10 Yr projections assume individualized, average annual property value growth rates for each of the City's three property classifications: real property, personal property, and the Renaissance Zone. The 10 Yr projections assume real property values will decline 4% annually during the FY2014-2023 period, and personal property values will decline 0.3% for the same time period. The Renaissance Zone forecast assumes a 4.8% annual increase – aided by the 47% forecasted growth assumption in FY2014 which is consistent with the FY2012-2013 average.

Collection Rates

The POA forecast assumes improving property tax collections over the FY2014-2023 timeframe. The 10 Yr projections assume that collections for the non-departmental property taxes improve from an assumed 78% in FY2014 to 80% in FY2015-2019 to 84% in the last four years of this ten year period. Estimated collections for debt service is projected to decrease from an assumed 82% in FY2014 to 80% in FY2015-2019 to 84% in the last four years of this ten year period. Estimated collections for library property taxes are assumed to improve from 82% in FY2014-2016 to 84% in FY 2017 to 85% in FY2018-2023.

	2014	2015	2016	2017	Preliminary forecast						2023	10 Year Total
					2018	2019	2020	2021	2022			
Change in assessed values												
Real Property	-6.4%	-14.0%	-3.8%	-2.7%	-2.4%	-2.3%	-9.6%	-0.1%	0.7%	0.7%		-4.0%
Personal Property	-1.5%	-1.2%	-1.1%	-0.7%	-0.2%	-0.1%	0.3%	0.3%	0.4%	0.4%		-0.3%
Renaissance Zone	47.3%	-11.8%	1.0%	1.0%	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%		4.8%
Values												
Real Property	\$6,200.3	\$5,335.3	\$5,134.4	\$4,993.6	\$4,874.8	\$4,762.7	\$4,307.4	\$4,303.0	\$4,333.2	\$4,363.7		
Personal Property	<u>1,183.7</u>	<u>1,169.0</u>	<u>1,156.0</u>	<u>1,148.3</u>	<u>1,145.8</u>	<u>1,144.6</u>	<u>1,147.9</u>	<u>1,151.2</u>	<u>1,155.7</u>	<u>1,160.3</u>		
Total Valuation (for Non-Departmental & Library)	\$7,384.0	\$6,504.3	\$6,290.4	\$6,141.9	\$6,020.6	\$5,907.3	\$5,455.3	\$5,454.1	\$5,488.9	\$5,524.0		
Renaissance Zone	<u>917.2</u>	<u>809.1</u>	<u>817.2</u>	<u>825.4</u>	<u>833.7</u>	<u>846.2</u>	<u>863.1</u>	<u>880.4</u>	<u>898.0</u>	<u>915.9</u>		
Total Valuation (for Debt Service)	\$8,301.2	\$7,313.4	\$7,107.6	\$6,967.4	\$6,854.3	\$6,753.5	\$6,318.4	\$6,334.5	\$6,386.9	\$6,439.9		
Millage												
Non-Departmental (General City)	19.952	19.952	19.952	19.952	19.952	19.952	19.952	19.952	19.952	19.952		
Debt Service	9.771	10.699	10.143	10.343	10.311	10.013	10.060	9.896	7.030	6.270		
Library	4.631	4.631	4.631	4.631	4.631	4.631	4.631	4.631	4.631	4.631		
Adjusted tax levy												
Non-Departmental (General City)	\$ 147.3	\$ 128.2	\$ 124.0	\$ 121.0	\$ 118.6	\$ 116.4	\$ 107.3	\$ 107.3	\$ 108.0	\$ 108.7		\$ 1,186.9
Debt Service	81.1	78.2	72.1	72.1	70.7	67.6	63.6	62.7	44.9	40.4		653.3
Library	34.2	30.1	29.1	28.4	27.9	27.4	25.3	25.3	25.4	25.6		278.6
Total	\$ 262.6	\$ 236.6	\$ 225.2	\$ 221.5	\$ 217.2	\$ 211.3	\$ 196.2	\$ 195.3	\$ 178.3	\$ 174.7		\$ 2,118.9
Collection rate												
Non-Departmental (General City)	78.0%	80.0%	80.0%	80.0%	80.0%	80.0%	84.0%	84.0%	84.0%	84.0%		81.4%
Debt Service	82.0%	80.0%	80.0%	80.0%	80.0%	80.0%	84.0%	84.0%	84.0%	84.0%		81.8%
Library	82.0%	82.0%	82.0%	84.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%		84.0%
City collections												
Non-Departmental (General City) [A]	\$ 114.9	\$ 102.6	\$ 99.2	\$ 96.8	\$ 94.9	\$ 93.1	\$ 90.2	\$ 90.1	\$ 90.7	\$ 91.3		\$ 963.8
Debt Service	66.5	62.6	57.7	57.6	56.5	54.1	53.4	52.7	37.7	33.9		532.8
Library	28.0	24.7	23.9	23.9	23.7	23.3	21.5	21.5	21.6	21.7		233.8
Total	\$ 209.5	\$ 189.9	\$ 180.7	\$ 178.4	\$ 175.1	\$ 170.4	\$ 165.0	\$ 164.3	\$ 150.0	\$ 147.0		\$ 1,730.3
General fund collections [A]+[B]	\$ 114.9	\$ 102.6	\$ 99.2	\$ 96.8	\$ 94.9	\$ 93.1	\$ 90.2	\$ 90.1	\$ 90.7	\$ 91.3		\$ 963.8

Components of Property Tax Value

	2014	2015	2016	2017	Preliminary forecast						2023	10 Year Total
					2018	2019	2020	2021	2022			
Components of Property Taxable Value (non - RZ)												
Residential Property	3,948.1	3,138.7	2,981.7	2,862.5	2,748.0	2,638.0	2,176.4	2,165.5	2,187.2	2,209.0		
Real Property - Commercial	1,786.9	1,750.0	1,715.0	1,697.8	1,697.8	1,697.8	1,706.3	1,714.8	1,723.4	1,732.0		
Real Property - Industrial	<u>465.4</u>	<u>446.7</u>	<u>437.7</u>	<u>433.4</u>	<u>429.0</u>	<u>426.9</u>	<u>424.7</u>	<u>422.6</u>	<u>422.6</u>	<u>422.6</u>		
Total - Real Property	6,200.3	5,335.3	5,134.4	4,993.6	4,874.8	4,762.7	4,307.4	4,303.0	4,333.2	4,363.7		
Forecasted YoY Change - Real Property												
Residential Property	-7.4%	-20.5%	-5.0%	-4.0%	-4.0%	-4.0%	-17.5%	-0.5%	1.0%	1.0%		-6.1%
Real Property - Commercial	-5.0%	-2.1%	-2.0%	-1.0%	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%		-0.8%
Real Property - Industrial	<u>-2.5%</u>	<u>-4.0%</u>	<u>-2.0%</u>	<u>-1.0%</u>	<u>-1.0%</u>	<u>-0.5%</u>	<u>-0.5%</u>	<u>-0.5%</u>	<u>0.0%</u>	<u>0.0%</u>		-1.2%
Total - Real Property	-6.4%	-14.0%	-3.8%	-2.7%	-2.4%	-2.3%	-9.6%	-0.1%	0.7%	0.7%		-4.0%
Personal Property - Commercial	529.5	524.1	513.6	508.5	508.5	508.5	511.0	513.6	516.2	518.7		
Personal Property - Industrial	290.4	253.7	251.2	248.7	246.2	244.9	243.7	242.5	242.5	242.5		
Personal Property - Utility	<u>363.7</u>	<u>391.2</u>	<u>391.2</u>	<u>391.2</u>	<u>391.2</u>	<u>391.2</u>	<u>393.1</u>	<u>395.1</u>	<u>397.1</u>	<u>399.0</u>		
Total - Personal Property	1,183.7	1,169.0	1,156.0	1,148.3	1,145.8	1,144.6	1,147.9	1,151.2	1,155.7	1,160.3		
Forecasted YoY Change - Personal Property												
Personal Property - Commercial	-3.8%	-1.0%	-2.0%	-1.0%	0.0%	0.0%	0.5%	0.5%	0.5%	0.5%		-0.6%
Personal Property - Industrial	3.2%	-12.6%	-1.0%	-1.0%	-1.0%	-0.5%	-0.5%	-0.5%	0.0%	0.0%		-1.4%
Personal Property - Utility	<u>-1.6%</u>	<u>7.5%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.5%</u>	<u>0.5%</u>	<u>0.5%</u>	<u>0.5%</u>		0.8%
Total - Personal Property	-1.5%	-1.2%	-1.1%	-0.7%	-0.2%	-0.1%	0.3%	0.3%	0.4%	0.4%		-0.3%

10 YR Projections - With RRIs

Assessed Property Values

The 10 Yr projections – with RRIs - assumes real property values will decline 1.7% during the FY2014-2023 period, and personal property will increase by 0.9% during that same time period. The Renaissance Zone is forecasted to increase 4.8% annually during the ten year period – aided by the 47% forecasted growth assumption in FY2014.

In January 2014, the City launched a property tax assessment reform designed to make Detroit more attractive to current and prospective residents. As initial studies have indicated that significant portions of the City are over-assessed, the assessment reform is likely to result, in the near term, in reduced assessments and property tax revenues. This scenario is forecasted via an assumed 9% decline in real property assessments in FY2015 and a 3-4% drop in FY2015. The City believes that reduced assessments will result in improved property tax collection rates and, in the longer term, increased property values as Detroit becomes a more desirable location.

Collection Rates

The POA forecast assumes improving property tax collection over the FY2014-2023 timeframe. The 10 Yr projections assume collections for non-

departmental property taxes improve from a 78-82% range the 1st six years of the ten year period to 87% in the four years at the end of this period. The 10 Yr projections assume collections for debt service improve from a 78-82% range the 1st six years of the ten year period to 87% in the four years at the end of this period. Estimated collections for library property taxes are assumed to improve from 82% in FY2014-2016 to 84% in FY 2017 to 85% in FY2018-2023.

	2014	2015	2016	2017	Preliminary forecast						10 Year Total
					2018	2019	2020	2021	2022	2023	
Change in assessed values											
Real Property	-6.4%	-14.0%	-2.0%	-1.3%	0.0%	1.2%	-4.1%	2.8%	3.5%	3.5%	-1.7%
Personal Property	-1.5%	-1.2%	-0.3%	1.0%	1.0%	1.8%	1.8%	2.0%	2.2%	2.2%	0.9%
Renaissance Zone	47.3%	-11.8%	1.0%	1.0%	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%	4.8%
Values											
Real Property	\$6,200.3	\$5,335.3	\$5,228.1	\$5,158.6	\$5,158.4	\$5,218.0	\$5,005.5	\$5,146.4	\$5,328.1	\$5,516.5	
Personal Property	<u>1,183.7</u>	<u>1,169.0</u>	<u>1,164.9</u>	<u>1,176.6</u>	<u>1,188.4</u>	<u>1,209.5</u>	<u>1,231.1</u>	<u>1,255.7</u>	<u>1,283.7</u>	<u>1,312.5</u>	
Total Valuation (for Non-Departmental & Library)	\$7,384.0	\$6,504.3	\$6,393.0	\$6,335.2	\$6,346.8	\$6,427.5	\$6,236.5	\$6,402.1	\$6,611.9	\$6,828.9	
Renaissance Zone	<u>917.2</u>	<u>809.1</u>	<u>817.2</u>	<u>825.4</u>	<u>833.7</u>	<u>846.2</u>	<u>863.1</u>	<u>880.4</u>	<u>898.0</u>	<u>915.9</u>	
Total Valuation (for Debt Service)	\$8,301.2	\$7,313.4	\$7,210.3	\$7,160.6	\$7,180.4	\$7,273.6	\$7,099.6	\$7,282.4	\$7,509.9	\$7,744.9	
Millage											
Non-Departmental (General City)	19.952	19.952	19.952	19.952	19.952	19.952	19.952	19.952	19.952	19.952	
Debt Service	9.771	10.699	9.999	9.818	9.603	9.070	8.645	8.311	5.773	5.034	
Library	4.631	4.631	4.631	4.631	4.631	4.631	4.631	4.631	4.631	4.631	
Adjusted tax levy											
Non-Departmental (General City)	\$ 147.3	\$ 128.2	\$ 126.0	\$ 124.8	\$ 125.1	\$ 126.6	\$ 122.8	\$ 126.1	\$ 130.2	\$ 134.5	\$ 1,291.8
Debt Service	81.1	78.2	72.1	70.3	69.0	66.0	61.4	60.5	43.4	39.0	640.9
Library	34.2	30.1	29.6	29.3	29.4	29.8	28.9	29.6	30.6	31.6	303.2
Total	\$ 262.6	\$ 236.6	\$ 227.7	\$ 224.5	\$ 223.4	\$ 222.4	\$ 213.1	\$ 216.3	\$ 204.2	\$ 205.1	\$ 2,235.9
Collection rate											
Non-Departmental (General City)	78.0%	80.0%	80.0%	82.0%	82.0%	82.0%	87.0%	87.0%	87.0%	87.0%	83.2%
Debt Service	82.0%	80.0%	80.0%	82.0%	82.0%	82.0%	87.0%	87.0%	87.0%	87.0%	83.6%
Library	82.0%	82.0%	82.0%	84.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	84.0%
City collections											
Non-Departmental (General City) [A]	\$ 114.9	\$ 102.6	\$ 100.8	\$ 102.4	\$ 102.6	\$ 103.9	\$ 106.8	\$ 109.7	\$ 113.3	\$ 117.0	\$ 1,074.0
Debt Service	66.5	62.6	57.7	57.6	56.5	54.1	53.4	52.7	37.7	33.9	532.8
Library	28.0	24.7	24.3	24.6	25.0	25.3	24.5	25.2	26.0	26.9	254.6
Total	\$ 209.5	\$ 189.9	\$ 182.8	\$ 184.7	\$ 184.1	\$ 183.2	\$ 184.8	\$ 187.5	\$ 177.0	\$ 177.8	\$ 1,861.3
General fund collections [A]+[B]	\$ 114.9	\$ 102.6	\$ 100.8	\$ 102.4	\$ 102.6	\$ 103.9	\$ 106.8	\$ 109.7	\$ 113.3	\$ 117.0	\$ 1,074.0

Components of Property Tax Value

	2014	2015	2016	2017	Preliminary forecast						10 Year Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
<u>Components of Property Taxable Value (non - RZ)</u>											
Residential Property	3,948.1	3,138.7	3,044.5	2,953.2	2,908.9	2,923.4	2,660.3	2,740.1	2,849.7	2,963.7	
Real Property - Commercial	1,786.9	1,750.0	1,732.5	1,749.8	1,784.8	1,820.5	1,856.9	1,903.3	1,960.4	2,019.2	
Real Property - Industrial	465.4	446.7	451.1	455.7	464.8	474.1	488.3	502.9	518.0	533.6	
Total - Real Property	6,200.3	5,335.3	5,228.1	5,158.6	5,158.4	5,218.0	5,005.5	5,146.4	5,328.1	5,516.5	
<u>Forecasted YoY Change - Real Property</u>											
Residential Property	-7.4%	-20.5%	-3.0%	-3.0%	-1.5%	0.5%	-9.0%	3.0%	4.0%	4.0%	-3.3%
Real Property - Commercial	-5.0%	-2.1%	-1.0%	1.0%	2.0%	2.0%	2.0%	2.5%	3.0%	3.0%	0.7%
Real Property - Industrial	-2.5%	-4.0%	1.0%	1.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	1.1%
Total - Real Property	-6.4%	-14.0%	-2.0%	-1.3%	0.0%	1.2%	-4.1%	2.8%	3.5%	3.5%	-1.7%
Personal Property - Commercial	529.5	524.1	513.6	518.8	523.9	534.4	545.1	558.7	575.5	592.8	
Personal Property - Industrial	290.4	253.7	256.3	258.8	261.4	264.0	266.7	269.3	272.0	274.7	
Personal Property - Utility	363.7	391.2	395.1	399.0	403.0	411.1	419.3	427.7	436.2	445.0	
Total - Personal Property	1,183.7	1,169.0	1,164.9	1,176.6	1,188.4	1,209.5	1,231.1	1,255.7	1,283.7	1,312.5	
<u>Forecasted YoY Change - Personal Property</u>											
Personal Property - Commercial	-3.8%	-1.0%	-2.0%	1.0%	1.0%	2.0%	2.0%	2.5%	3.0%	3.0%	0.8%
Personal Property - Industrial	3.2%	-12.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-0.1%
Personal Property - Utility	-1.6%	7.5%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.9%
Total - Personal Property	-1.5%	-1.2%	-0.3%	1.0%	1.0%	1.8%	1.8%	2.0%	2.2%	2.2%	0.9%

Sensitivity Analysis

The Sensitivity analysis below estimates the impact of a 1% change in the forecasted collection rate for each category of property classification in both the “with RRIs” and “without RRIs” scenarios.

	2014	2015	2016	2017	Preliminary forecast						FY2014-2023 Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
<u>For Every 1% Change in Annual Collection Rates</u>											
<u>Without Reinvestment</u>											
Real Property	1.5	1.3	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	11.9
Personal Property	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.4	0.4	6.5
Renaissance Zone	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	2.8
Total	2.6	2.4	2.3	2.2	2.2	2.1	2.0	2.0	1.8	1.7	21.2
<u>With Reinvestment</u>											
Real Property	1.5	1.3	1.3	1.2	1.3	1.3	1.2	1.3	1.3	1.3	12.9
Personal Property	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.4	0.4	6.4
Renaissance Zone	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.0
Total	2.6	2.4	2.3	2.2	2.2	2.2	2.1	2.2	2.0	2.1	22.4

For the Without RRIs scenario, every 1% change in the 10 Yr assumption will result in an approximate \$21 million change in collected income tax revenues in the

FY2014-2023 period. Due to higher property tax collection forecast in the With RRIs case, the estimated variance increases to \$22 million over that ten year period in question.

Utility Users' Taxes

The City of Detroit is the only city in Michigan authorized to levy a 5% utility users' excise tax. The City imposes this tax on consumers of telephone, electric, steam, and gas services. Utility users' tax revenues are forecasted to account for approximately 2% of General Fund revenue in the FY2014-2023 period.

	2014	2015	2016	2017	Preliminary forecast						2023	10 Year Total
					2018	2019	2020	2021	2022			
<u>WITHOUT REINVESTMENT</u>												
Utility users tax collections - Gross	\$ 37.0	\$ 37.0	\$ 37.0	\$ 37.4	\$ 37.8	\$ 38.2	\$ 38.6	\$ 38.9	\$ 39.3	\$ 39.7		\$ 381.0
Less: PLA transfer	(16.9)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)		(129.4)
Utility users tax collections - Net	\$ 20.1	\$ 24.5	\$ 24.5	\$ 24.9	\$ 25.3	\$ 25.7	\$ 26.1	\$ 26.4	\$ 26.8	\$ 27.2		\$ 251.6
YoY % Change	-43.0%	22.1%	0.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%		-1.0%
<u>WITH REINVESTMENT</u>												
Utility users tax collections - Gross	\$ 37.0	\$ 37.0	\$ 37.4	\$ 38.0	\$ 38.5	\$ 38.9	\$ 39.3	\$ 39.7	\$ 40.1	\$ 40.5		\$ 386.6
Less: PLA transfer	(16.9)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)		(129.4)
Utility users tax collections - Net	\$ 20.1	\$ 24.5	\$ 24.9	\$ 25.5	\$ 26.0	\$ 26.4	\$ 26.8	\$ 27.2	\$ 27.6	\$ 28.0		\$ 257.2
YoY % Change	-43.0%	22.1%	1.5%	2.3%	2.2%	1.5%	1.5%	1.5%	1.5%	1.5%		-0.8%

Other Revenues

The City of Detroit annually generates revenues for City-services related to permits, licenses, parking fines, grant revenues, and 36th District Court fees. Grant revenue is comprised of approximately \$11 million in Fire Department SAFER grants in FY2015 and 2016, \$4-5 million annually in Police Department grants, with the balance related to Homeland Security, health initiatives, and the planning and

development department. Other revenues are forecasted to account for approximately 7% of General Fund revenue in the FY2014-2023 period.

	2014	2015	2016	2017	Preliminary forecast					2021	2022	2023	10 Year Total
					2018	2019	2020						
Parking/court fines and other revenue	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 29.2	\$ 291.9
YoY % Change	-7.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.7%
Grant revenue	\$ 27.9	\$ 27.1	\$ 25.6	\$ 14.2	\$ 14.5	\$ 14.8	\$ 15.0	\$ 15.3	\$ 15.5	\$ 15.8	\$ 15.8	\$ 15.8	\$ 185.7
YoY % Change	-52.0%	-3.1%	-5.3%	-44.7%	2.5%	1.7%	1.7%	1.7%	1.6%	1.6%	1.6%	1.6%	-9.4%
Licenses, permits and inspection charges	\$ 9.0	\$ 9.1	\$ 9.1	\$ 9.1	\$ 9.2	\$ 9.2	\$ 9.3	\$ 9.3	\$ 9.3	\$ 9.3	\$ 9.4	\$ 9.4	\$ 92.0
YoY % Change	-15.5%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	-1.1%
Revenue from use of assets	\$ 4.1	\$ 11.7	\$ 5.2	\$ 5.2	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 47.6
YoY % Change	-64.3%	185.7%	-55.4%	0.0%	-31.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%
Other Taxes	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 9.6	\$ 95.6
YoY % Change	-16.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.7%
Total - Other Revenue	\$ 79.8	\$ 86.6	\$ 78.7	\$ 67.3	\$ 66.0	\$ 66.3	\$ 66.6	\$ 66.9	\$ 67.2	\$ 67.5	\$ 67.5	\$ 67.5	\$ 712.8
	-28.6%	8.5%	-9.1%	-14.5%	-1.9%	0.4%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	-4.3%

Section G - Operating Expenditures

Summary²⁶

The operating expenditures in the City of Detroit's POA 40 Yr Projections are summarized below:

<u>General Fund Operating Expenditures</u>	<u>FY2014-2023</u>		<u>FY2024-2033</u>		<u>FY2034-2043</u>		<u>FY2044-2053</u>	
Salaries/Overtime/Fringe	\$	3,768 47.3%	\$	4,612 48.8%	\$	5,700 48.1%	\$	7,121 47.5%
Health Benefits	\$	753 9.4%	\$	928 9.8%	\$	1,374 11.6%	\$	2,034 13.6%
Active Pension	\$	348 4.4%	\$	444 4.7%	\$	548 4.6%	\$	683 4.6%
OPEB Future Retirees	\$	32 0.4%	\$	37 0.4%	\$	43 0.4%	\$	51 0.3%
Other Operating Expenses	\$	3,073 38.5%	\$	3,437 36.3%	\$	4,190 35.3%	\$	5,108 34.1%
Total General Fund Operating Expenditures	\$	7,974 100.0%	\$	9,458 100.0%	\$	11,855 100.0%	\$	14,997 100.0%

The City's 10 Yr projections were developed by E&Y primarily to reflect the "baseline" financial condition of the City in the summer of 2013, assuming no changes in legacy obligations. These projections were prepared in significant detail and are the initial building block for the financial forecasts that are contained in the POA. The analysis below identifies the City's individual operating expense categories, the estimated growth for each category, and the key assumptions utilized. These expenditures exclude the expenditures related to the RRI's even though the

²⁶ Unless otherwise stated the financial projections referenced section G are sourced from the bibliography: Ernst & Young Models: 10-11

categories are similar. Section H includes the analysis of the expenditures associated with the RRIs.

The detailed operating expenditures in the 10 Yr forecast are as follows²⁷:

General Fund Operating Expenditures	FY2014-2023	
	\$	% of Costs
Salaries & Wages	\$ 3,165	39.7%
Health Benefits	\$ 753	9.4%
Overtime	\$ 326	4.1%
Other Benefits	\$ 278	3.5%
Active Pension	\$ 348	4.4%
OPEB Future Retirees	\$ 32	0.4%
Professional and contractual services	\$ 559	7.0%
Risk management and insurance	\$ 445	5.6%
Materials & supplies	\$ 376	4.7%
Utilities	\$ 296	3.7%
Purchased services	\$ 230	2.9%
Other expenses	\$ 359	4.5%
Maintenance capital	\$ 62	0.8%
Contributions to non enterprise funds	\$ 216	2.7%
DDOT subsidy	\$ 530	6.7%
Total General Fund Operating Expenditures General Fund	\$ 7,974	100.0%
Operating Surplus Prior to Legacy, Non Operating Expenses and RRI's	\$ 2,781	

²⁷ The analysis shows both estimates from the base 10 Yr plan and estimates from the 40 year plan including pension and OPEB payments to future retirees. The analysis was done to estimate a run rate operating surplus prior to accounting for the RRIs.

Salaries & Wages

Salaries and wages related to the General Fund were \$297.6 million in FY2013 and accounted for 40.4% of the City's estimated operating expenses. By FY2023, the City is projecting Salaries and Wages to represent 39.7% of operating expenses prior to the additional headcount from the RRI's.

Headcount

City-wide headcount in FY2013 was 10,043²⁸ versus the prior 5 year average of 12,610. The City projected headcount using the projected FY2013 headcount by department and assuming that headcount remained constant over the next ten years except for the following exceptions:

- Departments that are being outsourced including: DWDD, Human Services, PLD, Homeland Security and the majority of the Health and Wellness and City Council Departments. The City also adjusted some department headcount estimates higher or lower than FY2013 based on the most recent information from FY2014
- The Finance and HR department headcount reductions due to the implementation of a new payroll service in FY2017
- The Police and Fire Departments include projections for attrition and new hires beginning in FY2015

²⁸ The 2013 headcount is from the 10 Yr base model and was the estimated headcount when the financial model was initially prepared. The assumptions are based off of the projected headcount going forward. Actual headcount by department differs by this amount. The analysis in this section will reference the 2013 headcount in the base 10 Yr plan.

Total employees across all departments is projected to be 9,742 in FY2023 versus 10,043 in FY2013 or a 3.1% decrease. The average headcount from FY2008-FY2012 was 12,610 and the FY2023 headcount represents a 22.7% decrease from this level. Projected headcount by department:

Department	Preliminary Forecast									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Police	2,706	2,747	2,882	2,895	2,895	2,895	2,895	2,895	2,895	2,895
Fire	1,183	1,238	1,228	1,228	1,228	1,228	1,228	1,228	1,228	1,228
Transportation	978	1,048	1,065	1,065	1,065	1,065	1,065	1,065	1,065	1,065
Sewer	1,016	1,016	1,016	1,016	1,016	1,016	1,016	1,016	1,016	1,016
Water	873	873	873	873	873	873	873	873	873	873
36th District Court	362	362	362	362	362	362	362	362	362	362
Library	335	335	335	335	335	335	335	335	335	335
General Services	298	272	272	272	272	272	272	272	272	272
Waste	265	265	265	265	265	265	265	265	265	265
Streets	230	225	225	225	225	225	225	225	225	225
Finance	216	216	216	206	206	206	206	206	206	206
Recreation	202	202	202	202	202	202	202	202	202	202
BSED	192	192	192	192	192	192	192	192	192	192
Planning & Development	116	113	113	113	113	113	113	113	113	113
Parking	90	90	90	90	90	90	90	90	90	90
Law	86	86	86	86	86	86	86	86	86	86
Elections	80	60	60	60	60	60	60	60	60	60
Human Resources	84	84	84	60	60	60	60	60	60	60
ITS	35	38	38	38	38	38	38	38	38	38
Mayor	22	24	24	24	24	24	24	24	24	24
Public Works	14	19	19	19	19	19	19	19	19	19
Non-Departmental	21	17	17	17	17	17	17	17	17	17
Auditor General	17	17	17	17	17	17	17	17	17	17
Budget	16	16	16	16	16	16	16	16	16	16
City Clerk	15	15	15	15	15	15	15	15	15	15
Zoning	11	11	11	11	11	11	11	11	11	11
City Council	9	10	10	10	10	10	10	10	10	10
Health & Wellness	14	9	9	9	9	9	9	9	9	9
Ombudsperson	6	6	6	6	6	6	6	6	6	6
Human Rights	5	5	5	5	5	5	5	5	5	5
Airport	5	5	5	5	5	5	5	5	5	5
Administrative Hearings	4	4	4	4	4	4	4	4	4	4
PLD	70	12	7	5	3	3	3	2	-	-
Total	9,578	9,634	9,770	9,747	9,745	9,745	9,745	9,744	9,742	9,742

A comparison of FY2023 with FY2013 headcount for the General Fund and Enterprise Funds is shown below:

<u>General Fund</u>	<u>Headcount</u>			<u>Enterprise Funds</u>	<u>Headcount</u>		
	<u>2023</u>	<u>2013</u>	<u>Var</u>		<u>2023</u>	<u>2013</u>	<u>Var</u>
Police	2,895	2,909	(14)	DDOT	1,065	1,060	5
Fire	1,228	1,189	39	Sewer	1,016	1,016	-
36th District Court	362	362	-	Water	873	873	-
General Services	272	298	(26)	Library	335	335	-
Waste	265	265	0	Streets	225	199	26
Finance	206	228	(22)	BSED	192	192	-
Recreation	202	202	-	Parking	90	90	-
Planning & Development	113	116	(3)	Airport	5	5	-
Law	86	86	-	Total Enterprise Funds	3,802	3,772	31
Elections	60	80	(20)				
Human Resources	60	93	(33)				
ITS	38	35	3				
Mayor	24	22	2				
Public Works	19	41	(22)				
Non-Departmental	17	21	(4)				
Auditor General	17	14	3				
Budget	16	16	-				
City Clerk	15	15	-				
Zoning	11	11	-				
City Council	10	46	(36)				
Health & Wellness	9	80	(71)				
Ombudsperson	6	6	-				
Human Rights	5	5	-				
Administrative Hearings	4	4	-				
DWDD	-	7	(7)				
Homeland Security	-	1	(1)				
Human Services	-	22	(22)				
PLD	-	99	(99)				
Total General Fund	5,940	6,271	(331)				

Average Salary

The City calculated departmental salaries and wages by using the headcount projections above and calculating a base average salary by department. The City determined the base average salary via two methods:

- The City calculated the average departmental salary by using the total FY2013 expense for salaries and wages by department and divided that by the average headcount of the department over the course of FY2013.
- The City analyzed each department's average salary at a point in time, conducting this analysis in November of 2013.

The City's advisors reviewed both estimates with each department head and selected the average salary that was considered the most reasonable going forward based on attrition estimates and estimated future hirings.

City-wide 10% wage reductions were implemented prior to FY2014 for the majority of employees. The Fire and Police departments FY2014 average salaries were adjusted by 4.1% and 2.1% in the projections respectively to account for 10% wage reductions for the remaining employees with contracts that expired in FY2013.

It should be noted that the baseline 10 Yr model used average salaries for the Fire and Police departments even though employees leaving via attrition will be replaced by employees at lower wages and new employees will most likely be entry level employees at lower salary levels. This assumption change was made recently and adjusted in the July 2, 2014 RRI's for each respective department. The add backs can be seen in Section H. The average wages also include a 10% wage reduction to 36th District Court employees from FY2013 levels in 2014. For all employees, wage inflation is assumed with the following schedule:

Year	YoY Change
2015	5.0%
2016	0.0%
2017	2.5%
2018	2.5%
2019	2.5%
2020	2.0%
2021	2.0%
2022	2.0%
2023	2.0%

Projected average salary by department by year:

Department	Preliminary Forecast										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Police	\$ 51,514	\$ 54,454	\$ 54,454	\$ 55,816	\$ 57,211	\$ 58,641	\$ 59,814	\$ 61,010	\$ 62,231	\$ 63,475	
Fire	\$ 55,950	\$ 58,747	\$ 58,747	\$ 60,216	\$ 61,721	\$ 63,264	\$ 64,530	\$ 65,820	\$ 67,137	\$ 68,479	
Transportation	\$ 30,767	\$ 32,306	\$ 32,306	\$ 33,113	\$ 33,941	\$ 34,790	\$ 35,486	\$ 36,195	\$ 36,919	\$ 37,658	
Sewer	\$ 56,127	\$ 58,933	\$ 58,933	\$ 60,406	\$ 61,916	\$ 63,464	\$ 64,734	\$ 66,028	\$ 67,349	\$ 68,696	
Water	\$ 40,481	\$ 42,505	\$ 42,505	\$ 43,568	\$ 44,657	\$ 45,774	\$ 46,689	\$ 47,623	\$ 48,575	\$ 49,547	
36th District Court	\$ 46,252	\$ 48,564	\$ 48,564	\$ 49,779	\$ 51,023	\$ 52,299	\$ 53,345	\$ 54,411	\$ 55,500	\$ 56,610	
Library	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
General Services	\$ 33,501	\$ 35,176	\$ 35,176	\$ 36,056	\$ 36,957	\$ 37,881	\$ 38,639	\$ 39,412	\$ 40,200	\$ 41,004	
Waste	\$ 33,188	\$ 34,847	\$ 34,847	\$ 35,718	\$ 36,611	\$ 37,527	\$ 38,277	\$ 39,043	\$ 39,823	\$ 40,620	
Streets	\$ 33,188	\$ 34,847	\$ 34,847	\$ 35,718	\$ 36,611	\$ 37,527	\$ 38,277	\$ 39,043	\$ 39,823	\$ 40,620	
Finance	\$ 45,415	\$ 47,685	\$ 47,685	\$ 48,878	\$ 50,099	\$ 51,352	\$ 52,379	\$ 53,427	\$ 54,495	\$ 55,585	
Recreation	\$ 16,904	\$ 17,749	\$ 17,749	\$ 18,193	\$ 18,648	\$ 19,114	\$ 19,496	\$ 19,886	\$ 20,284	\$ 20,690	
BSED	\$ 47,306	\$ 49,672	\$ 49,672	\$ 50,913	\$ 52,186	\$ 53,491	\$ 54,561	\$ 55,652	\$ 56,765	\$ 57,900	
Planning & Development	\$ 53,640	\$ 56,322	\$ 56,322	\$ 57,730	\$ 59,173	\$ 60,652	\$ 61,865	\$ 63,103	\$ 64,365	\$ 65,652	
Parking	\$ 33,594	\$ 35,274	\$ 35,274	\$ 36,156	\$ 37,060	\$ 37,986	\$ 38,746	\$ 39,521	\$ 40,312	\$ 41,118	
Law	\$ 71,497	\$ 75,072	\$ 75,072	\$ 76,949	\$ 78,873	\$ 80,844	\$ 82,461	\$ 84,111	\$ 85,793	\$ 87,509	
Elections	\$ 27,971	\$ 29,370	\$ 29,370	\$ 30,104	\$ 30,856	\$ 31,628	\$ 32,260	\$ 32,906	\$ 33,564	\$ 34,235	
Human Resources	\$ 49,727	\$ 52,213	\$ 52,213	\$ 53,519	\$ 54,857	\$ 56,228	\$ 57,353	\$ 58,500	\$ 59,670	\$ 60,863	
ITS	\$ 57,494	\$ 60,369	\$ 60,369	\$ 61,878	\$ 63,425	\$ 65,011	\$ 66,311	\$ 67,637	\$ 68,990	\$ 70,369	
Mayor	\$ 92,861	\$ 97,504	\$ 97,504	\$ 99,942	\$ 102,440	\$ 105,001	\$ 107,101	\$ 109,243	\$ 111,428	\$ 113,657	
Public Works	\$ 46,029	\$ 41,811	\$ 41,811	\$ 42,856	\$ 43,927	\$ 45,025	\$ 45,926	\$ 46,844	\$ 47,781	\$ 48,737	
Non-Departmental	\$ 80,395	\$ 84,414	\$ 84,414	\$ 86,525	\$ 88,688	\$ 90,905	\$ 92,723	\$ 94,578	\$ 96,469	\$ 98,399	
Auditor General	\$ 65,304	\$ 68,569	\$ 68,569	\$ 70,283	\$ 72,041	\$ 73,842	\$ 75,318	\$ 76,825	\$ 78,361	\$ 79,928	
Budget	\$ 64,173	\$ 67,381	\$ 67,381	\$ 69,066	\$ 70,792	\$ 72,562	\$ 74,013	\$ 75,494	\$ 77,003	\$ 78,544	
City Clerk	\$ 46,300	\$ 48,615	\$ 48,615	\$ 49,831	\$ 51,076	\$ 52,353	\$ 53,400	\$ 54,468	\$ 55,558	\$ 56,669	
Zoning	\$ 25,120	\$ 26,376	\$ 26,376	\$ 27,035	\$ 27,711	\$ 28,404	\$ 28,972	\$ 29,551	\$ 30,142	\$ 30,745	
City Council	\$ 68,378	\$ 71,500	\$ 71,500	\$ 73,288	\$ 75,120	\$ 76,998	\$ 78,538	\$ 80,108	\$ 81,711	\$ 83,345	
Health & Wellness	\$ 60,946	\$ 73,547	\$ 73,547	\$ 75,386	\$ 77,270	\$ 79,202	\$ 80,786	\$ 82,402	\$ 84,050	\$ 85,731	
Ombudsperson	\$ 81,064	\$ 85,117	\$ 85,117	\$ 87,245	\$ 89,426	\$ 91,662	\$ 93,495	\$ 95,365	\$ 97,272	\$ 99,217	
Human Rights	\$ 57,093	\$ 59,948	\$ 59,948	\$ 61,447	\$ 62,983	\$ 64,558	\$ 65,849	\$ 67,166	\$ 68,509	\$ 69,879	
Airport	\$ 64,882	\$ 68,126	\$ 68,126	\$ 69,829	\$ 71,575	\$ 73,364	\$ 74,832	\$ 76,328	\$ 77,855	\$ 79,412	
Administrative Hearings	\$ 82,422	\$ 86,544	\$ 86,544	\$ 88,707	\$ 90,925	\$ 93,198	\$ 95,062	\$ 96,963	\$ 98,902	\$ 100,881	
PLD	\$ 49,211	\$ 84,190	\$ 81,474	\$ 79,817	\$ 79,591	\$ 81,182	\$ 82,806	\$ 84,462	\$ -	\$ -	

Department Salaries and Wages

The Police and Fire departments represent 76.5% of total salaries and wages in the General Fund. The following charts summarize the salaries and wages by department over the 10 year period for labor costs reflected in the General Fund and the Enterprise Funds:

Salaries and Wages - General Fund				Salaries and Wages - All Other Funds		
General Fund	FY 2014-2023	% of Salaries	% of Revenue	All Other Funds	FY 2014-2023	% of Salaries
Police	\$ 1,654	52.3%	14.7%	Sewer	\$ 637	36.1%
Fire	\$ 765	24.2%	6.8%	Water	\$ 395	22.4%
36th District Court	\$ 187	5.9%	1.7%	DDOT	\$ 363	20.5%
Finance	\$ 106	3.3%	0.9%	Waste	\$ 98	5.6%
General Services	\$ 103	3.2%	0.9%	BSED	\$ 96	5.5%
Law	\$ 68	2.2%	0.6%	Streets	\$ 84	4.7%
Recreation	\$ 38	1.2%	0.3%	Planning & Development	\$ 61	3.5%
Human Resources	\$ 37	1.2%	0.3%	<u>All Other Depts.</u>	<u>\$ 31</u>	<u>1.8%</u>
Planning & Development	\$ 31	1.0%	0.3%	Total Other Funds	\$ 1,765	100.0%
Mayor	\$ 25	0.8%	0.2%			
ITS	\$ 24	0.8%	0.2%			
<u>All Other GF Depts.</u>	<u>\$ 127</u>	<u>4.0%</u>	<u>1.1%</u>			
Total General Fund	\$ 3,165	100.0%	28.2%			

Following FY2023, the City projects total salaries and wages will increase 2% a year from FY2024-FY2033 and 2.25% a year from FY2034-FY2053.

Health Benefits

Health benefits for active employees in the General Fund in FY2013 totaled \$47.8 million or 6.5% of operating expenses. Over the next ten years the city is estimating Health Benefits to account for 9.4% of operating expenses. The City relied on their actuary, Milliman, Inc.²⁹, to project health care costs per active employee. Milliman's estimated FY2014 healthcare costs are based on headcount estimates provided by the City and reflect cost of healthcare plan designs offered for FY2014 enrollment:

²⁹ See Milliman Letter Re: City of Detroit Active Health Plan Projections Dated November 3, 2014.

FY2014									
Milliman Per Employee Estimate									
	Headcount	Medical	Dental	Vision	Total	2014 Total			
Uniform	3,957	\$ 8,459	\$ 667	\$ 79	\$ 9,205	\$	36		
General	2,532	\$ 7,378	\$ 667	\$ 79	\$ 8,124	\$	21		
DOT	936	\$ 9,087	\$ 667	\$ 87	\$ 9,841	\$	9		
Water/Sewer	1,815	\$ 7,675	\$ 667	\$ 79	\$ 8,421	\$	15		
Library	384	\$ 6,695	\$ 667	\$ 79	\$ 7,441	\$	3		
Total	9,624					\$	84		

Milliman projected estimates for year over year percent changes in healthcare costs per employee from FY2015 thru FY2019. After FY2019 the City projected annual healthcare increases. The City estimated 4% a year in annual inflation in healthcare costs for FY2020 through FY2023.

	Milliman Letter Estimates					City Estimates			
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Uniform	-2.1%	6.8%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
General	-4.4%	6.8%	7.1%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
DOT	-11.3%	6.7%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
Water/Sewer	-1.3%	6.8%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
Library	-2.8%	6.5%	7.1%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%
36th DC	-4.0%	6.7%	7.0%	7.3%	6.0%	4.0%	4.0%	4.0%	4.0%

Health benefits in the General Fund include \$142.8³⁰ million of OPEB payments for current retirees including \$123.8 million in FY2014 and \$19 million in FY2015. The City continued to pay healthcare costs for retirees after filing bankruptcy in the form of a stipend. The total amount projected to be paid was deducted when calculating total recovery for the OPEB claim via UTGO Note A.

³⁰ Total payments to current retirees in the financial model is actually \$162.8 million. This amount includes \$20 million considered recovered after negotiations and it is paid in cash under the sources section in the 40 Yr model along with other unsecured creditors.

The following chart shows the total projected health benefit expenses in the General Fund in FY2014-FY2023:

Preliminary Forecast											
General Fund Active Health Benefits	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
General Fund Active Employees	\$ 49.2	\$ 48.0	\$ 52.4	\$ 55.9	\$ 60.0	\$ 63.6	\$ 66.1	\$ 68.7	\$ 71.5	\$ 74.3	\$ 609.8
OPEB Payments for Current Retirees	\$ 123.8	\$ 19.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 142.8
Total General Fund	\$ 173.0	\$ 67.1	\$ 52.4	\$ 55.9	\$ 60.0	\$ 63.6	\$ 66.1	\$ 68.7	\$ 71.5	\$ 74.3	\$ 752.6

Overtime

Overtime accounted for \$29.7 million in the General Fund in FY2013 which was 4% of total operating expenditures and 10% of payroll. The City assumed that overtime in the projections as a percentage of payroll stays constant from FY2013 except for a few exceptions:

- Overtime in the Fire department increases from 7% in FY2013 to 8.5% in FY2014 and finally decreases to 6% from FY2015-FY2023. The Fire Department overtime levels were down from the FY2008-FY2012 average of 13.4% to 7% in FY2013 as the Fire Department has been successful in reducing overtime due to better staffing model. Additional overtime reductions for the department are reflected in section H.
- Overtime in the Police Department is expected to increase from 12% in FY2013 to 15% in FY2014 and FY2015 and back to 14% in FY2016-FY2023. The expected increase is a result of changing from 12 hour shifts to 8 hour shifts.
- Overtime for DDOT is projected to decrease to 40% of payroll versus 42.8% in FY2013. The overtime for DDOT in operating expenditures does not account for projected overtime decreases due to additional hires in DDOT and updates to its existing bus fleet that reduce overtime by a considerable amount. The reduction in overtime can be seen in Section H.

The chart below highlights overtime across all departments as a percentage of total department payroll:

Department	Preliminary Forecast										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Police	12.0%	15.0%	15.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Fire	7.0%	8.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Transportation	42.8%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Sewer	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%	19.9%
Water	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%	18.5%
36th District Court	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
General Services	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%	22.9%
Waste	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Streets	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%	8.6%
Finance	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Recreation	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
BSED	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%
Planning & Development	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Parking	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Law	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Elections	20.8%	22.4%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
Human Resources	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
ITS	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Mayor	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Public Works	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
Non-Departmental	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Auditor General	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Budget	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
City Clerk	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Zoning	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
City Council	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Health & Wellness	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
Ombudsperson	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Human Rights	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Airport	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Administrative Hearings	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PLD	49.8%	29.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

The chart below highlights General Fund overtime paid over the ten year period:

General Fund Overtime		
Department	10 Year Total	% of Overtime
Police	235	72%
Fire	48	15%
General Services	24	7%
Finance	8	2%
All Other GF Depts.	12	4%
Total Overtime	\$ 326	100%

The majority of overtime in the General Fund is driven by Police, Fire and General Services. Overtime for DDOT is projected to be \$145 million over the 10

year period. Although DDOT is not funded by the General Fund, the General Fund does provide a subsidy to DDOT as it has historically operated at a deficit. Overtime for the majority of departments has decreased from the FY2008-FY2012 average. If the current assumptions are understated and actual overtime reverts back to FY2008-FY2012 levels, the overtime costs could increase as shown below:

Department	2008-2012 Avg	10 Yr Avg	Var	Additional OT	
				Over 10 Yrs at 08-12 Avg	
Police	15.0%	14.2%	0.8%		14
Fire	13.4%	6.3%	7.1%		55
DDOT	44.6%	40.0%	4.6%		17
Total				\$	85

Other Benefits

Other benefits including social security, unemployment and life insurance totaled \$34 million in the General Fund in FY2013 representing 4.6% of operating expenses and 11.4% of payroll. The City projected other benefits by calculating the FY2013 cost per employee for each benefit and multiplying it by the number of employees projected in FY2014. For the Fire and Police Departments, which have both uniform and civilian employees, the City calculated the uniform employees at the Police or Fire Department per employee cost and civilians at the General City per employee cost. The analysis below highlights the calculations the City made regarding fringe benefits:

Benefit Per Head	Fire	Police	DOT	Gen City	BSED	36DC	Sewer	Water	Library
<u>As a % of Payroll</u>									
Emp Benefits-Social Security	0.00%	0.00%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
<u>Per Head Cost</u>									
Unemployment	\$ -	\$ -	\$ 400	\$ 1,900	\$ 200	\$ -	\$ 200	\$ 125	\$ 100
Misc Benefits	\$ 23	\$ 23	\$ 20	\$ 52	\$ 87	\$ -	\$ 30	\$ 50	\$ 38
Unused Sick Leave	\$ 3,892	\$ 1,424	\$ 100	\$ 991	\$ 650	\$ -	\$ 1,025	\$ 1,026	\$ 298
Longevity	\$ -	\$ -	\$ 257	\$ -	\$ -	\$ 491	\$ -	\$ -	\$ 388
Group Life Insurance	\$ 802	\$ 802	\$ 287	\$ 287	\$ 287	\$ 1,053	\$ 287	\$ 287	\$ 287
Income Protection	\$ -	\$ -	\$ 244	\$ 37	\$ 31	\$ 614	\$ 34	\$ 60	\$ 36
DOT Sick & Accident	\$ -	\$ -	\$ 802	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Benefit Per Head	\$ 4,717	\$ 2,249	\$ 2,109	\$ 3,266	\$ 1,254	\$ 2,158	\$ 1,575	\$ 1,548	\$ 1,146

Total Fringe Benefits	Fire	Police	DOT	Gen City	BSED	36DC	Sewer	Water	Library
<u>FY13 Heads (estimated)</u>									
Uniform	917	2,632	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Civilian	271	277	1,060	2,107	192	362	1,016	873	335
<u>FY13 Payroll (estimated)</u>									
Uniform	\$ 53,491,447	\$ 138,515,971							
Civilian	\$ 15,813,821	\$ 14,577,797	\$ 30,283,777	\$ 80,289,491	\$ 7,844,088	\$ 18,577,833	\$ 33,315,825	\$ 34,893,517	\$ -
Heads x per head costs	\$ 4,898,103	\$ 6,503,401	\$ 2,235,541	\$ 6,882,139	\$ 241,370	\$ 780,081	\$ 1,601,205	\$ 1,352,018	\$ 383,974
Payroll x % of payroll costs	\$ 1,209,757	\$ 1,115,201	\$ 2,316,709	\$ 6,142,146	\$ 600,073	\$ 1,421,204	\$ 2,548,661	\$ 2,669,354	\$ -
Total fringe costs	\$ 6,421,533	\$ 7,939,065	\$ 4,552,250	\$ 13,024,285	\$ 841,443	\$ 2,201,285	\$ 4,149,865	\$ 4,021,372	\$ 383,974
Fringe costs as % of payroll	9.3%	5.2%	15.0%	16.2%	10.7%	11.8%	12.5%	11.5%	n/a

Going forward, the City assumed fringe benefits as a percent of payroll would stay constant. As a result, fringe benefits increase at the same rate as wage inflation projected in the forecast. In addition to fringe benefits, the City included a one-time 3% bonus in FY2016 to all uniformed employees and a one-time 2.5% bonus to non-uniformed employees. Below summarizes the General Fund cost for fringe benefits by year including the bonus payments:

Fringe Benefits	Preliminary Forecast										
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
PFRS	\$ 13.4	\$ 14.5	\$ 14.8	\$ 15.2	\$ 15.6	\$ 16.0	\$ 16.3	\$ 16.6	\$ 17.0	\$ 17.3	\$ 156.6
General	\$ 8.6	\$ 8.8	\$ 8.7	\$ 8.6	\$ 8.8	\$ 9.0	\$ 9.2	\$ 9.4	\$ 9.5	\$ 9.7	\$ 90.4
36 District Court	\$ 2.0	\$ 2.1	\$ 2.1	\$ 2.1	\$ 2.2	\$ 2.2	\$ 2.3	\$ 2.3	\$ 2.4	\$ 2.4	\$ 22.1
Total General Fund	\$ 23.9	\$ 25.4	\$ 25.6	\$ 26.0	\$ 26.6	\$ 27.3	\$ 27.8	\$ 28.3	\$ 28.9	\$ 29.5	\$ 269.2
One Time 2.5% Bonus to AFSCME			\$ 1.8								\$ 1.8
One Time 3% Bonus to all Uniform			\$ 6.9								\$ 6.9
Total General Fund Fringe Benefits	\$ 23.9	\$ 25.4	\$ 34.3	\$ 26.0	\$ 26.6	\$ 27.3	\$ 27.8	\$ 28.3	\$ 28.9	\$ 29.5	\$ 277.9

Active Pension

The city is establishing a new hybrid pension plan for its active employees. Details regarding the new pension plan are discussed in Section J. The City assumed the following contributions per employee group as a percentage of payroll based on the most recent negotiations:

	<u>Contribution %</u>
Non Public Safety	5.75%
Public Safety	12.25%
PLSA	12.25%

The chart below summarizes the City's yearly estimated contributions to the pension plan:

<u>Preliminary Forecast</u>											
Active Pension	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Non Public Safety Payroll	\$ 69.8	\$ 71.9	\$ 69.8	\$ 71.3	\$ 72.9	\$ 74.7	\$ 76.2	\$ 77.7	\$ 79.1	\$ 80.6	\$ 744.1
DDOT Payroll	\$ 30.1	\$ 33.9	\$ 34.4	\$ 35.3	\$ 36.1	\$ 37.1	\$ 37.8	\$ 38.5	\$ 39.3	\$ 40.1	\$ 362.6
Total Non Uniform Payroll	\$ 99.9	\$ 105.8	\$ 104.2	\$ 106.6	\$ 109.1	\$ 111.8	\$ 114.0	\$ 116.2	\$ 118.4	\$ 120.7	\$ 1,106.7
Non Public Safety Contribution	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Non Public Safety Active Pension	\$ 5.7	\$ 6.1	\$ 6.0	\$ 6.1	\$ 6.3	\$ 6.4	\$ 6.6	\$ 6.7	\$ 6.8	\$ 6.9	\$ 63.6
Police Payroll (Excluding DPLSA)	\$ 102.0	\$ 110.4	\$ 117.7	\$ 121.4	\$ 124.4	\$ 127.5	\$ 130.1	\$ 132.7	\$ 135.3	\$ 138.0	\$ 1,239.4
Police Contribution	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
Police Active Pension	\$ 12.5	\$ 13.5	\$ 14.4	\$ 14.9	\$ 15.2	\$ 15.6	\$ 15.9	\$ 16.3	\$ 16.6	\$ 16.9	\$ 151.8
Fire Payroll	\$ 66.2	\$ 72.7	\$ 72.1	\$ 73.9	\$ 75.8	\$ 77.7	\$ 79.2	\$ 80.8	\$ 82.4	\$ 84.1	\$ 765.1
Fire Contribution	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
Fire Active Pension	\$ 8.1	\$ 8.9	\$ 8.8	\$ 9.1	\$ 9.3	\$ 9.5	\$ 9.7	\$ 9.9	\$ 10.1	\$ 10.3	\$ 93.7
DPLSA	\$ 37.1	\$ 39.0	\$ 39.0	\$ 39.9	\$ 40.9	\$ 42.0	\$ 42.8	\$ 43.6	\$ 44.5	\$ 45.4	\$ 414.2
DPLSA Contribution	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%	12.25%
DPLSA Active Pension	\$ 4.5	\$ 4.8	\$ 4.8	\$ 4.9	\$ 5.0	\$ 5.1	\$ 5.2	\$ 5.3	\$ 5.5	\$ 5.6	\$ 50.7
Adjustment Year 1	\$ (12.1)										\$ (12.1)
Active Pension Contribution	\$ 18.8	\$ 33.3	\$ 34.0	\$ 34.9	\$ 35.8	\$ 36.7	\$ 37.4	\$ 38.2	\$ 38.9	\$ 39.7	\$ 347.8

Active OPEB

The city is establishing a Voluntary Employment Benefit Account ("VEBA") for its active employees' future healthcare costs. The City assumed a contribution

of \$1 million per year to PFRS and 2% of payroll for non-uniform employees based on the most recent negotiations. Summarized below is the City's yearly estimated contribution to the VEBA:

Preliminary Forecast											
Active OPEB	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Non Public Safety Payroll	\$ 69.8	\$ 71.9	\$ 71.5	\$ 71.3	\$ 72.9	\$ 74.7	\$ 76.2	\$ 77.7	\$ 79.1	\$ 80.6	\$ 745.8
DDOT Payroll	\$ 30.1	\$ 33.9	\$ 34.4	\$ 35.3	\$ 36.1	\$ 37.1	\$ 37.8	\$ 38.5	\$ 39.3	\$ 40.1	\$ 362.6
Total Non Uniform Payroll	\$ 99.9	\$ 105.8	\$ 105.9	\$ 106.6	\$ 109.1	\$ 111.8	\$ 114.0	\$ 116.2	\$ 118.4	\$ 120.7	\$ 1,108.4
OPEB Contribution	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Non Public Safety OPEB	\$2.0	\$2.1	\$2.1	\$2.1	\$2.2	\$2.2	\$2.3	\$2.3	\$2.4	\$2.4	\$22.2
PFRS (Includes DPLSA)	\$ 205.4	\$ 222.1	\$ 228.8	\$ 235.2	\$ 241.1	\$ 247.1	\$ 252.1	\$ 257.1	\$ 262.3	\$ 267.5	\$ 2,418.7
PFRS Contribution	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
PFRS OPEB	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 10.0
OPEB Payments	\$ 3.0	\$ 3.1	\$ 3.1	\$ 3.1	\$ 3.2	\$ 3.2	\$ 3.3	\$ 3.3	\$ 3.4	\$ 3.4	\$ 32.2

Professional and Contractual Services

Professional and Contractual Services are comprised of the following categories: Auditing, Medical, Legal, Personal Service Contracts and Other Contracts. Professional and Contractual Services are expected to account for 7% of total costs over for the 10 Yr forecast. The City assumes all Professional and Contractual Services expenses will increase by 1% a year, with a few exceptions:

- Medical costs decrease from \$22.7 million in FY2013 to \$1.3 million in FY2014 due to the transition of the Health and Wellness department
- Personal Service Contracts are affected by a \$2 million increase in FY2014 related to City Council's outsourcing of its support staff
- Personal Service Contracts in the Mayor's department increase from \$8,000 in FY2013 to \$500,000 in FY2014 and to \$1 million in FY2015 before decreasing to \$29,000 in FY2018.
- Personal Service Contracts increase in the Public Lighting department as a number of jobs are outsourced beginning in FY2014. Those outsourced jobs are eliminated by FY2021.

- Other Contracts fluctuates due to additional resources needed in the election department during election years, resulting in an additional \$3 million expense.

Below is a breakdown including year over changes by line item:

Professional & Contracts	Preliminary Forecast										10 Year Total
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Auditing	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.3	\$ 2.3	\$ 2.3	\$ 2.3	\$ 2.3	\$ 2.4	\$ 22.7
YoY Change	-11.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-0.3%
Medical	\$ 1.3	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.5	\$ 14.1
YoY Change	-94.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-8.5%
Legal	\$ 2.4	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.6	\$ 2.6	\$ 2.6	\$ 2.6	\$ 2.6	\$ 2.7	\$ 25.7
YoY Change	0.0%	1.6%	1.4%	1.2%	0.7%	0.6%	0.7%	0.7%	0.9%	1.0%	0.9%
Personal Services Contracts	\$ 10.5	\$ 22.5	\$ 18.7	\$ 15.2	\$ 12.3	\$ 11.4	\$ 10.1	\$ 8.7	\$ 8.0	\$ 8.1	\$ 125.4
YoY Change	98.0%	114.4%	-17.0%	-18.5%	-19.2%	-7.3%	-11.2%	-13.5%	-8.9%	1.0%	11.8%
Other Contracts	\$ 37.1	\$ 35.1	\$ 35.4	\$ 35.7	\$ 39.3	\$ 36.4	\$ 36.7	\$ 37.0	\$ 40.7	\$ 37.7	\$ 371.0
YoY Change	-14.5%	-5.5%	0.9%	0.9%	10.2%	-7.6%	0.9%	0.9%	9.8%	-7.3%	-1.1%
Total Professionals & Contracts	\$ 53.5	\$ 63.6	\$ 60.1	\$ 57.1	\$ 57.8	\$ 54.0	\$ 53.1	\$ 52.2	\$ 55.1	\$ 52.3	\$ 558.9
	-29.8%	18.7%	-5.4%	-5.1%	1.3%	-6.6%	-1.6%	-1.8%	5.6%	-5.1%	-3.0%

Risk Management & Insurance

Risk Management and Insurance is comprised of the following categories: Litigation, Workers Comp, Other Claims and Insurance. Risk Management and Insurance is expected to account for 5.6% of total costs over the 10 Yr Plan. The global assumption is Risk Management and Insurance will increase by 1% per year except for the following assumption:

- Litigation costs increase to FY2013 levels in FY2015 as the City exits bankruptcy in FY2015.

Below is a breakdown including year over changes by line item:

Preliminary Forecast											
RM and Insurance	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Litigation	\$ 18.8	\$ 26.6	\$ 26.8	\$ 27.1	\$ 27.4	\$ 27.6	\$ 27.9	\$ 28.2	\$ 28.5	\$ 28.8	\$ 267.6
YoY Change	-28.5%	41.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.1%
Workers Comp	\$ 4.8	\$ 4.9	\$ 4.9	\$ 4.9	\$ 5.0	\$ 5.0	\$ 5.1	\$ 5.1	\$ 5.2	\$ 5.3	\$ 50.2
YoY Change	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%
Other Claims	\$ 11.6	\$ 11.7	\$ 11.8	\$ 11.9	\$ 12.0	\$ 12.1	\$ 12.3	\$ 12.4	\$ 12.5	\$ 12.6	\$ 120.9
YoY Change	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%
Insurance	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.7	\$ 0.7	\$ 6.3
YoY Change	-24.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-2.4%
Total RM and Insurance	\$ 35.2	\$ 43.1	\$ 43.5	\$ 43.9	\$ 44.4	\$ 44.8	\$ 45.3	\$ 45.7	\$ 46.2	\$ 46.7	\$ 438.8
YoY Change	-17.6%	22.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.3%

Materials and Supplies

Materials and Supplies are comprised of the following categories: Operating Supplies, Fuel and Lubricants, Repairs and Maintenance and Other. Materials and Supplies are expected to account for 4.7% of total costs over the ten year period. The global assumption is all materials and supplies expenses will increase by 1% per year.

- Operating Supplies decrease from FY2016-2021 due to the transition of the Public Lighting department.
- Fuel and Lubricants decrease in FY2015 due to the transition of the Public Lighting department.
- Repairs and Maintenance decrease in FY2017 due to \$1.9 million in savings in the ITS department as a result of the new payroll system.

Below is a breakdown including year over changes by line item:

Preliminary Forecast											
Materials & Supplies	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Operating supplies	\$ 5.1	\$ 5.6	\$ 5.9	\$ 5.6	\$ 5.3	\$ 4.9	\$ 4.6	\$ 4.2	\$ 4.1	\$ 4.2	\$ 49.4
<i>YoY Change</i>	<i>18.4%</i>	<i>9.1%</i>	<i>6.2%</i>	<i>-5.1%</i>	<i>-4.8%</i>	<i>-8.3%</i>	<i>-6.7%</i>	<i>-7.6%</i>	<i>-2.1%</i>	<i>1.0%</i>	<i>0.0%</i>
Fuel & Lubricants	\$ 45.5	\$ 15.7	\$ 15.8	\$ 16.0	\$ 16.1	\$ 16.3	\$ 16.5	\$ 16.6	\$ 16.8	\$ 17.0	\$ 192.2
<i>YoY Change</i>	<i>0.8%</i>	<i>-65.6%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>-5.7%</i>
Repairs & Maint	\$ 11.9	\$ 11.0	\$ 11.4	\$ 9.8	\$ 9.6	\$ 9.3	\$ 9.1	\$ 8.8	\$ 8.8	\$ 8.9	\$ 98.5
<i>YoY Change</i>	<i>16.3%</i>	<i>-7.5%</i>	<i>4.1%</i>	<i>-14.3%</i>	<i>-1.8%</i>	<i>-3.4%</i>	<i>-2.4%</i>	<i>-2.7%</i>	<i>-0.3%</i>	<i>1.0%</i>	<i>-1.1%</i>
Other - MS	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 35.8
<i>YoY Change</i>	<i>-0.3%</i>	<i>0.9%</i>	<i>0.6%</i>	<i>0.3%</i>	<i>-0.4%</i>	<i>-0.6%</i>	<i>-0.4%</i>	<i>-0.5%</i>	<i>-0.2%</i>	<i>0.0%</i>	<i>-0.1%</i>
Total Materials & Supplies	\$ 66.0	\$ 35.8	\$ 36.7	\$ 35.0	\$ 34.7	\$ 34.0	\$ 33.6	\$ 33.2	\$ 33.3	\$ 33.5	\$ 375.9
<i>YoY Change</i>	<i>4.5%</i>	<i>-45.8%</i>	<i>2.7%</i>	<i>-4.8%</i>	<i>-0.8%</i>	<i>-1.8%</i>	<i>-1.2%</i>	<i>-1.3%</i>	<i>0.1%</i>	<i>0.9%</i>	<i>-4.8%</i>

Utilities

Utilities are expected to account for 3.7% of total costs over the 10 Yr forecast.

All Utilities are expected to increase by 1% per year except for the following:

- Water is projected to increase year over year by the following:

<u>Year</u>	<u>YoY Change</u>
2015	1.5%
2016	5.7%
2017	5.7%
2018	2.8%
2019	3.5%
2020	3.5%
2021	3.5%
2022	3.9%
2023	3.9%

- Sewage is projected to increase year over year by the following:

Year	YoY Change
2015	1.4%
2016	3.7%
2017	2.9%
2018	3.1%
2019	3.7%
2020	3.6%
2021	3.7%
2022	4.0%
2023	4.0%

- Outside purchases for electricity is expected to increase 25% in FY2015 as the City transitions to purchasing electricity from an outside vendor.

Preliminary Forecast											
Utilities	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Telecommunications	\$ 9.3	\$ 9.4	\$ 9.5	\$ 9.6	\$ 9.6	\$ 9.7	\$ 9.8	\$ 9.9	\$ 10.0	\$ 10.1	\$ 97.0
YoY Change	134.9%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	14.3%
Water	\$ 1.3	\$ 1.3	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.6	\$ 1.6	\$ 14.7
YoY Change	12.2%	0.7%	3.5%	3.7%	1.1%	1.8%	1.9%	1.8%	3.0%	3.9%	3.4%
Natural Gas	\$ 2.3	\$ 1.9	\$ 1.9	\$ 1.8	\$ 1.8	\$ 1.8	\$ 1.8	\$ 1.8	\$ 1.9	\$ 1.9	\$ 18.9
YoY Change	-0.4%	-16.4%	-1.5%	-7.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-1.9%
Steam	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 7.6
YoY Change	15.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.4%
Electricity	\$ 4.3	\$ 6.4	\$ 4.3	\$ 3.9	\$ 3.9	\$ 3.8	\$ 3.8	\$ 3.8	\$ 3.9	\$ 3.9	\$ 42.1
YoY Change	1.1%	47.7%	-33.4%	-8.1%	-1.3%	-1.3%	-0.4%	0.6%	0.8%	1.0%	0.7%
Sewage	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.3	\$ 7.3	\$ 7.4	\$ 7.5	\$ 7.7	\$ 8.0	\$ 74.0
YoY Change	30.7%	0.2%	0.8%	0.2%	0.4%	1.0%	1.0%	1.0%	2.5%	4.0%	4.2%
Utilities IPO	\$ 3.3	\$ 4.1	\$ 4.1	\$ 4.1	\$ 4.2	\$ 4.2	\$ 4.3	\$ 4.3	\$ 4.4	\$ 4.4	\$ 41.4
YoY Change	-4.8%	21.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.5%
Other - Utl	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
YoY Change	-2.2%	-7.2%	-5.3%	-18.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-3.3%
Total Utilities	\$ 28.5	\$ 31.0	\$ 29.1	\$ 28.8	\$ 29.0	\$ 29.2	\$ 29.4	\$ 29.7	\$ 30.2	\$ 30.7	\$ 295.7
YoY Change	33.3%	8.9%	-6.2%	-1.0%	0.5%	0.7%	0.9%	1.0%	1.4%	1.9%	4.1%

Purchased Services

Purchased Services are expected to account for 2.9% of total costs over the ten year period. All Purchased Services are expected to increase by 1% per year except for the following:

- 17% increase in FY2016 driven by the implementation of the payroll service.

Preliminary Forecast											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Purchased Services	\$ 18.4	\$ 19.3	\$ 22.6	\$ 24.8	\$ 24.6	\$ 24.3	\$ 24.2	\$ 24.0	\$ 24.0	\$ 24.2	\$ 230.4
YoY Change	234.8%	4.9%	17.5%	9.4%	-0.5%	-1.2%	-0.7%	-0.8%	0.2%	0.8%	26.4%

Other Expenses and Capital Outlays

Other Expenses and Capital Outlays are expected to account for 5.3% of total costs over the 10 Yr projections. The majority of expenses are expected to increase approximately 1%. The chart below highlights all other operating expenses in the General Fund:

Preliminary Forecast												
Other Expenses	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total	
Printing	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 7.1	
YoY Change	46.6%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	5.6%	
Rental	\$ 11.8	\$ 12.6	\$ 12.7	\$ 12.7	\$ 12.7	\$ 12.6	\$ 12.6	\$ 12.6	\$ 12.6	\$ 12.6	\$ 125.5	
YoY Change	25.7%	7.0%	0.1%	0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	3.2%	
Employee Parking	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 4.3	
YoY Change	-20.9%	2.3%	1.9%	1.5%	0.4%	0.1%	0.3%	0.3%	0.3%	0.8%	-1.2%	
Private Car Reimbursement	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 2.5	
YoY Change	-5.8%	1.2%	1.1%	1.1%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	0.3%	
Travel	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 1.6	
YoY Change	-1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.8%	
Training	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 6.2	
YoY Change	182.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	19.1%	
Other Operating Costs	\$ 11.0	\$ 15.0	\$ 11.5	\$ 10.9	\$ 10.2	\$ 10.2	\$ 10.3	\$ 10.3	\$ 10.3	\$ 10.4	\$ 110.1	
YoY Change	5.9%	36.0%	-22.8%	-5.6%	-6.3%	0.2%	0.3%	0.2%	0.4%	0.5%	0.9%	
Development Costs	\$ 2.8	\$ 2.9	\$ 2.9	\$ 2.9	\$ 3.0	\$ 3.0	\$ 3.0	\$ 3.1	\$ 3.1	\$ 3.1	\$ 29.8	
YoY Change	-6.4%	1.3%	1.2%	1.1%	0.9%	0.8%	0.9%	0.9%	1.0%	1.0%	0.3%	
Total Improvement Fund	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 7.2	\$ 71.6	
YoY Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Capital Outlays	\$ 5.9	\$ 6.0	\$ 6.1	\$ 6.1	\$ 6.2	\$ 6.2	\$ 6.3	\$ 6.4	\$ 6.4	\$ 6.5	\$ 62.0	
YoY Change	-57.6%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-4.9%	
Total Other and Capital Outlays	\$ 40.8	\$ 45.7	\$ 42.5	\$ 41.9	\$ 41.3	\$ 41.4	\$ 41.6	\$ 41.7	\$ 41.8	\$ 42.0	\$ 420.7	
YoY Change	-10.4%	12.01%	-7.19%	-1.25%	-1.42%	0.25%	0.29%	0.29%	0.37%	0.41%	-0.7%	

Section H – RRIs and Non-Operating Expenditures

Summary³¹

The City identified restructuring and reinvestment initiatives by department that are essential to the revitalization of Detroit and the provision of essential municipal services. The City has identified \$1.7 billion of reinvestment initiatives to be undertaken during the next ten years, provided funding is available to do so. This section focuses on the underlying assumptions in the RRIs and certain other non-operating expenditures that are reflected in the POA projections. The total RRIs and non-operating expenditures are summarized below:

³¹ Unless otherwise stated the financial projections referenced in section H are sourced from bibliography: Conway Mackenzie Models: 28-54 and Ernst & Young Models 10-11.

General Fund	FY2014-2023	FY2014-2023	FY2014-2023	FY2014-2023
Operating Surplus Prior to Legacy, Non Operating Expenses and RRI's	\$ 2,781	\$ 2,054	\$ 1,788	\$ 1,434
<u>Reinvestment Initiatives</u>				
Department revenue initiatives	\$ 483	\$ 586	\$ 715	\$ 871
Less:				
Additional operating expenditures	\$ 357	\$ 359	\$ 438	\$ 534
Capital investments	\$ 582	\$ 443	\$ 501	\$ 605
Blight	\$ 420	\$ -	\$ -	\$ -
Reinvestment Deferrals	\$ (30)	\$ (223)	\$ 11	\$ 242
Total Reinvestment Expenditures	\$ 1,330	\$ 579	\$ 950	\$ 1,381
<u>Other Non Operating Expenses</u>				
Less:				
PLD Decommission	\$ 75	\$ -	\$ -	\$ -
Contributions to Income Stabilization Fund	\$ 18	\$ 2	\$ -	\$ -
Professional Fees	\$ 130	\$ -	\$ -	\$ -
Working Capital	\$ 25	\$ -	\$ -	\$ -
Secured Debt	\$ 391	\$ 391	\$ 67	\$ -
Swap Interest	\$ 104	\$ -	\$ -	\$ -
QOL Exit Financing	\$ 336	\$ 110	\$ -	\$ -
Contingency	\$ 101	\$ 121	\$ 144	\$ 173
Total Non Operating Expenses	\$ 1,179	\$ 624	\$ 211	\$ 173
Funds Available for Unsecured Claims	\$ 755	\$ 1,437	\$ 1,342	\$ 752

The RRI's were developed by department by CM, and identify capital investments, additional labor and other operating expenses that are needed to ensure that each City department is providing a basic level of service for Detroit residents. In addition, the City identified revenue enhancing initiatives as part of its departmental reviews. The chart below highlights the RRI's by category:

Revenue	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Pricing/Fees	\$ 0.4	\$ 10.0	\$ 15.5	\$ 16.8	\$ 21.5	\$ 23.2	\$ 27.3	\$ 26.8	\$ 30.9	\$ 31.8	\$ 204.1
Faster Collections	\$ 2.2	\$ 12.6	\$ 15.0	\$ 18.3	\$ 18.6	\$ 18.9	\$ 19.2	\$ 19.4	\$ 19.8	\$ 20.1	\$ 164.3
Grant Revenue	\$ 3.1	\$ 40.6	\$ 9.0	\$ 12.2	\$ 12.9	\$ 0.5	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6	\$ 80.6
Other	\$ (0.1)	\$ 19.9	\$ (0.2)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ -	\$ (0.1)	\$ -	\$ 19.3
Past Due Collections	\$ 1.5	\$ 4.9	\$ 5.7	\$ 2.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14.7
Total Revenue	\$ 7.2	\$ 88.0	\$ 45.1	\$ 49.7	\$ 52.9	\$ 42.5	\$ 46.9	\$ 46.8	\$ 51.3	\$ 52.5	\$ 482.9

Operating Expenditures	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Permanent Labor	\$ 2.7	\$ 24.2	\$ 20.1	\$ 22.2	\$ 21.7	\$ 19.8	\$ 19.7	\$ 19.0	\$ 18.6	\$ 17.7	\$ 185.6
Professional & Contract Services	\$ 0.4	\$ (1.0)	\$ (1.3)	\$ (1.3)	\$ (1.2)	\$ (1.2)	\$ (1.1)	\$ (1.1)	\$ (1.1)	\$ (1.0)	\$ (10.0)
Active Benefits	\$ 1.3	\$ 10.2	\$ 10.2	\$ 12.7	\$ 12.6	\$ 11.8	\$ 11.9	\$ 11.6	\$ 11.5	\$ 11.3	\$ 105.1
Training	\$ 0.3	\$ 7.3	\$ 9.2	\$ 6.3	\$ 5.4	\$ 5.2	\$ 5.1	\$ 5.2	\$ 5.3	\$ 5.0	\$ 54.4
Materials and Supplies	\$ 2.0	\$ 6.6	\$ 11.5	\$ 10.2	\$ 8.3	\$ 8.8	\$ 9.4	\$ 9.6	\$ 10.1	\$ 10.6	\$ 87.1
Utilities	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 2.6
Purchased services	\$ 0.4	\$ 0.8	\$ (0.8)	\$ (0.5)	\$ (1.0)	\$ (0.5)	\$ (1.0)	\$ (0.5)	\$ (0.9)	\$ (0.4)	\$ (4.5)
Risk management/insurance	\$ (0.0)	\$ (2.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (50.7)
Transfers In/(Out) (General Fund)	\$ (0.4)	\$ 4.4	\$ 0.5	\$ (2.3)	\$ (2.7)	\$ (3.5)	\$ (3.5)	\$ (3.1)	\$ (3.6)	\$ (3.6)	\$ (17.7)
Grant related expenses	\$ 1.2	\$ 15.6	\$ 3.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20.3
All Other	\$ (0.1)	\$ (1.7)	\$ (1.7)	\$ (1.6)	\$ (1.6)	\$ (1.6)	\$ (1.5)	\$ (1.6)	\$ (1.6)	\$ (1.6)	\$ (14.8)
Total Operating Expenditures	\$ 8.0	\$ 64.6	\$ 45.3	\$ 39.9	\$ 35.6	\$ 33.0	\$ 33.0	\$ 33.3	\$ 32.5	\$ 32.1	\$ 357.4

Reorganization/Investment	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Technology Infrastructure	\$ 3.1	\$ 41.3	\$ 34.4	\$ 19.6	\$ 10.1	\$ 7.4	\$ 10.7	\$ 8.8	\$ 8.8	\$ 7.5	\$ 151.7
Capital Expenditures	\$ 5.9	\$ 33.5	\$ 41.7	\$ 26.1	\$ 22.4	\$ 19.5	\$ 22.7	\$ 20.0	\$ 16.7	\$ 16.8	\$ 225.4
Other Infrastructure	\$ 8.3	\$ 25.8	\$ 24.0	\$ 19.1	\$ 16.4	\$ 15.7	\$ 15.8	\$ 15.2	\$ 13.7	\$ 13.4	\$ 167.4
Reorganization Costs	\$ 3.2	\$ 18.2	\$ 6.3	\$ 0.9	\$ 1.2	\$ 1.0	\$ 2.7	\$ 2.0	\$ 1.2	\$ 1.0	\$ 37.7
Total Reorganization/Investment	\$ 20.6	\$ 118.9	\$ 106.4	\$ 65.6	\$ 50.2	\$ 43.6	\$ 51.9	\$ 46.0	\$ 40.4	\$ 38.6	\$ 582.2

Revenue Initiatives

The City identified \$483 million in additional revenue over the 10 year period that could be available to the City if it implements the RRI's effectively. The largest sources of additional revenue include: increasing service and fares for DDOT, increasing the volume and dollar amount of parking tickets and collecting income taxes and various civil fines at a faster rate. The revenue initiatives also include \$52 million from the Hardest Hit Fund and other grants that the City has identified that were not in the baseline 10 Yr projections. The chart below highlights the revenue initiatives:

Revenue Initiative	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
DDOT Expansion	\$ 0.4	\$ 1.5	\$ 5.7	\$ 7.1	\$ 11.7	\$ 13.4	\$ 17.5	\$ 17.1	\$ 21.2	\$ 22.0	\$ 117.6
Faster 36DC Collections	\$ -	\$ 3.9	\$ 5.5	\$ 8.5	\$ 8.7	\$ 9.0	\$ 9.2	\$ 9.5	\$ 9.8	\$ 10.1	\$ 74.1
Increased Parking Tickets	\$ -	\$ 5.6	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.8	\$ 60.3
Income Tax Collection Improvements	\$ 1.2	\$ 4.9	\$ 4.9	\$ 5.2	\$ 5.2	\$ 5.2	\$ 5.2	\$ 5.2	\$ 5.2	\$ 5.2	\$ 47.4
Increased Collections for New Fire Department Hires	\$ 0.9	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.6	\$ 3.7	\$ 3.7	\$ 33.7
New Billings for Services	\$ -	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	\$ 2.9	\$ 26.2
All Other	\$ 4.7	\$ 65.6	\$ 15.6	\$ 15.6	\$ 13.9	\$ 1.5	\$ 1.6	\$ 1.6	\$ 1.7	\$ 1.8	\$ 123.6
Total Revenue Initiatives	\$ 7.2	\$ 88.0	\$ 45.1	\$ 49.7	\$ 52.9	\$ 42.5	\$ 46.9	\$ 46.8	\$ 51.3	\$ 52.5	\$ 482.9

DDOT is expecting to increase the number of buses in service from 282 in FY2013 to 394 in FY2023. In addition, the City is projecting total miles to increase from 12.1 million miles in FY2013 to 16.5 million miles in FY2023. The increase in mileage is expected to increase revenue by \$47 million over the ten year period and is dependent on obtaining new buses, which are grant funded, and increasing the number of routes.

The City is also projecting increased revenue as a result of fare price increases. The City has not had a fare price increase in the last 8 years. The following table shows the projected fare increases for DDOT:

Year	Fare Price	YoY Change
2013	\$ 1.50	0.0%
2014	\$ 1.50	0.0%
2015	\$ 1.50	0.0%
2016	\$ 1.75	16.7%
2017	\$ 1.75	0.0%
2018	\$ 2.00	14.3%
2019	\$ 2.00	0.0%
2020	\$ 2.25	12.5%
2021	\$ 2.25	0.0%
2022	\$ 2.50	11.1%
2023	\$ 2.50	0.0%

The City took into account decreased ridership at each fare price increase, assuming ridership would decrease 2% for every 10% increase in fares. The

increased revenue associated with the fare increases, minus the reduced ridership, results in a total revenue increase over the ten year period of \$70 million.

The City is projecting it will be able to collect an additional \$74 million as a result of better collections of civil fines and infractions. The City currently collects infractions at a 36% rate. The City is projecting it will increase collections from 36% in 2013 to 56.8% in 2023 leading to the additional \$74 million in revenue over the ten year period. The City believes this collection rate is achievable as the regional average is currently 65% which includes Detroit's low collection rate. The City has identified a few initiatives that will help improve collections including increased access to ATM's at the Court and improved operating systems and business processes.

The Emergency Manager implemented increases to parking ticket fines on April 3, 2014³². The City has long lagged comparable municipalities in this regard³³. The recent increase in the parking fines, in addition to additional parking officers, is expected to increase revenue by \$60 million over the ten year period.

The Finance department has identified a number of initiatives to improve the collection of income taxes. These include additional staffing, targeting non-

³² See Emergency Manager City of Detroit Order Number 24

³³ See PVB Revenue Enhancement White Paper dated December 9, 2013.

residents working in Detroit and using outside services. The initiatives are expected to generate an additional \$47 million over the ten year period.

The Fire department is expecting to collect additional revenue as a result of 9 new ambulances, additional Fire Marshalls and cross training fire fighters to do Fire Marshall and EMS work. The initiatives are expected to generate \$34 million in revenue over the ten years. The Fire department, along with the Police department, expects to increase revenues by billing services that have not been billed in the past. These new billings represent \$26 million in additional revenue over the ten year period.

Operating Expenditures

The City is projecting it will incur an additional \$357 million in operating expenditures in the next 10 years related to the RRI's. This does not include \$420 million estimated for Blight over the next ten years. Blight is discussed separately in section L of this Report.

Labor

The largest component of additional operating expense over the ten year period is permanent labor which totals \$186 million and represents 52% of the additional operating expenditures. Below is a summary of the labor increase:

Labor	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
New Labor due to Incremental Headcount	\$ 5.5	\$ 27.6	\$ 31.7	\$ 35.6	\$ 34.4	\$ 32.2	\$ 32.2	\$ 31.1	\$ 31.2	\$ 30.7	\$ 292.2
Overtime for New Employees	\$ -	\$ 0.0	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.4	\$ -	\$ 2.0
Overtime Savings from New Employees	\$ -	\$ 0.7	\$ (2.5)	\$ (6.9)	\$ (7.0)	\$ (7.1)	\$ (7.3)	\$ (7.4)	\$ (7.5)	\$ (7.7)	\$ (52.7)
Efficiency Savings	\$ -	\$ (0.0)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.4)	\$ (1.3)	\$ (1.4)	\$ (1.8)	\$ (2.0)	\$ (7.5)
Add Back Overestimate Police and Fire Wages	\$ (2.9)	\$ (4.1)	\$ (9.1)	\$ (6.5)	\$ (5.8)	\$ (5.1)	\$ (4.2)	\$ (3.6)	\$ (3.6)	\$ (3.6)	\$ (48.5)
Total Labor Expense	\$ 2.7	\$ 24.2	\$ 20.2	\$ 22.3	\$ 21.7	\$ 19.8	\$ 19.7	\$ 19.0	\$ 18.6	\$ 17.3	\$ 185.6

Additional headcount by department projections can be seen below:

Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
DDOT - Transportation	-	-	50	113	131	133	134	138	149	163
Police	125	250	250	210	175	162	149	149	149	149
Fire	161	97	84	182	193	165	153	135	129	117
Finance/Budget	28	120	121	121	112	112	112	112	112	112
General Services	112	112	112	112	112	112	112	112	112	112
Mayor's Office	31	31	31	31	31	31	31	31	31	31
Human Resources	4	19	22	22	22	22	22	22	22	22
Ombudsperson	-	-	20	20	20	20	20	20	20	20
Law	-	9	17	17	17	17	17	17	17	17
Labor Relations	-	3	11	11	11	11	11	11	11	11
Human Rights / Board of Ethics	-	6	6	6	6	6	6	6	6	6
Auditor General / Inspector General	-	4	4	4	4	4	4	4	4	4
Airport	-	1	1	1	1	1	1	1	1	1
Buildings and Safety	2	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
City Clerk	-	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Municipal Parking	1	7	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Non-Departmental (36D Initiatives)	-	(15)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)
Planning & Development	16	(32)	(34)	(34)	(34)	(34)	(34)	(34)	(34)	(34)
Total	480	609	660	781	766	727	704	690	694	696

The total consolidated number of employees³⁴ for all departments by year including the base 10 Yr Plan and RRI is highlighted below:

Total Employees	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2008-2012 Average	Variance
Total Employees Reinvestment		480	609	660	781	766	727	704	690	694	696		
Total Employees Base Model	10,043	9,578	9,634	9,770	9,747	9,745	9,745	9,745	9,744	9,742	9,742		
Total Employees	10,043	10,058	10,242	10,431	10,529	10,512	10,472	10,449	10,434	10,436	10,439	12,395	-15.8%

New Hires by Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Incremental Employees - Reinvestment	480	129	52	121	(15)	(40)	(23)	(14)	4	2	696
Incremental Employees - Base Model	(465)	56	136	(23)	(2)	-	-	(1)	(2)	-	(301)
Total Additional Head Count	15	185	188	98	(17)	(40)	(23)	(15)	2	2	396

The chart below shows total employees by department from both the 10 Yr forecast and RRI in FY2023 General Fund departments:

³⁴ The FY2008-2012 average only includes departments that will still be operating in FY2023

2023 Employees by Department				2023 vs. 2008-2012 Avg.		
General Fund	Base	Reinvestment	Total	2008-2012 Avg	Var	% Variance
Police	2,895	149	3,044	3,322	(277)	-9.1%
Fire	1,228	117	1,345	1,358	(14)	-1.0%
36th District Court	362	(25)	337	301	36	10.5%
General Services	272	112	384	495	(111)	-28.9%
Waste/Public Works	284	-	284	416	(132)	-46.5%
Finance/Budget/ITS	260	112	372	373	(1)	-0.3%
Recreation	202	-	202	436	(233)	NM
Planning & Development	113	(34)	79	156	(77)	-98.3%
Law	86	17	103	112	(10)	-9.3%
Elections	60	-	60	72	(12)	-19.5%
Human Resources	60	33	93	159	(66)	-71.4%
Mayor	24	31	55	67	(12)	-22.0%
Non-Departmental	17	-	17	26	(9)	-54.6%
Auditor General	17	4	21	17	4	19.2%
City Clerk	15	(3)	12	22	(10)	-82.3%
Zoning	11	-	11	15	(3)	-30.9%
City Council	10	-	10	75	(65)	NM
Health & Wellness	9	-	9	271	(262)	NM
Ombudsperson	6	20	26	9	17	64.9%
Human Rights	5	6	11	10	2	14.4%
Administrative Hearings	4	-	4	6	(2)	-55.0%
Total General Funds	5,940	539	6,479	7,718	(1,239)	-19.1%

After accounting for the additional employees in the reinvestment initiatives, the City is still operating with 19% fewer employees than the 5 year average from FY2008-2012. The largest increases in employees occur in Transportation, Police, Fire, Finance and the General Services departments:

- The 163 additional employees at DDOT include 35 additional uniformed employees to increase safety on buses, and additional bus drivers for additional routes
- The Police department is estimating 250 additional civilian personnel in FY2015 which will allow the City to redeploy uniformed personnel to police activities
- The Fire department expects to hire new fire fighters to provide adequate levels of service to the City. These fire fighters will be cross trained to improve efficiency and reduce overtime in the department

- The Finance department expects to hire an additional 112 employees as it identifies ways to operate more efficiently, identify new grant revenue and collect taxes at a faster pace
- General Services expects to hire an additional 112 employees primarily related to facilities and park maintenance.

The City forecasts incremental labor costs by identifying the positions to be added or eliminated and estimating the salary for those positions. Going forward the City assumed the same year over year incremental salary increases per employee as were projected in the base model. Over the ten year period the City expects incremental salaries and wages to increase \$292 million due to the RRI's. The chart below summarizes incremental labor costs by department:

Incremental Salary & Wages	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Finance/Budget	\$ 0.3	\$ 5.0	\$ 6.3	\$ 6.5	\$ 6.7	\$ 6.8	\$ 7.0	\$ 7.1	\$ 7.2	\$ 7.4	\$ 60.4
Police	\$ 1.5	\$ 8.8	\$ 9.4	\$ 7.4	\$ 5.6	\$ 5.0	\$ 4.5	\$ 4.6	\$ 4.7	\$ 4.8	\$ 56.2
Fire	\$ 1.7	\$ 5.6	\$ 4.0	\$ 8.0	\$ 7.8	\$ 5.6	\$ 5.6	\$ 3.9	\$ 3.3	\$ 2.0	\$ 47.4
General Services	\$ 0.7	\$ 2.3	\$ 4.4	\$ 4.5	\$ 4.7	\$ 4.8	\$ 4.9	\$ 5.0	\$ 5.1	\$ 5.2	\$ 41.6
DDOT - Transportation	\$ 0.1	\$ 1.9	\$ 2.2	\$ 3.3	\$ 3.7	\$ 3.8	\$ 3.9	\$ 4.1	\$ 4.4	\$ 4.7	\$ 32.1
Law	\$ -	\$ 0.7	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.6	\$ 1.6	\$ 1.6	\$ 1.7	\$ 1.7	\$ 13.4
Mayor's Office	\$ 0.8	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.5	\$ 13.3
Human Resources	\$ -	\$ 0.9	\$ 1.3	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 12.4
Planning & Development	\$ 0.3	\$ 0.9	\$ 0.8	\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9	\$ 1.0	\$ 1.0	\$ 8.5
Ombudsperson	\$ -	\$ -	\$ 0.4	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 5.2
Labor Relations	\$ -	\$ 0.1	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 3.7
Human Rights / Board of Ethics	\$ -	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 3.1
Auditor General / Inspector General	\$ -	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 2.5
Airport	\$ -	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 1.6
Municipal Parking	\$ 0.0	\$ 0.2	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.2)
Buildings and Safety	\$ 0.0	\$ 0.0	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.3)
Elections	\$ -	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.4)
City Clerk	\$ -	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (1.5)
Non-Departmental (36D Initiatives)	\$ -	\$ (0.3)	\$ (0.7)	\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.8)	\$ (0.9)	\$ (6.7)
Total Incremental Salary and Wages	\$ 5.5	\$ 27.6	\$ 31.7	\$ 35.6	\$ 34.4	\$ 32.2	\$ 32.2	\$ 31.1	\$ 31.2	\$ 30.7	\$ 292.2

In the base model, the City assumes that overtime remains at the FY 2013 level as a percentage of payroll. The City assumes that the incremental employees

hired as a result of the RRI's do not increase or decrease the overtime assumed in the base model with the following exceptions:

- Fire department overtime decreases by \$2 million over the ten year period and further savings of \$6.3 million occur due to reaching adequate staffing levels
- DDOT assumes \$48.7 million in overtime savings over the 10 year period as new buses are added to the fleet, maintenance on old buses decreases, overtime is reduced considerably. In addition, new safety cameras and additional police staff should increase driver and rider safety, thereby decreasing driver absenteeism and resulting in decreased overtime

The decrease in overtime at DDOT is a key assumption over the next ten years as the City provides a subsidy to DDOT. The analysis below highlights the projected overtime in gross dollars and as a percentage of payroll for both the base model and the added employees and the decreased overtime from the RRI's:

DDOT Consolidated Payroll and Overtime	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Total Payroll Base Model	\$ 30.1	\$ 33.9	\$ 34.4	\$ 35.3	\$ 36.1	\$ 37.1	\$ 37.8	\$ 38.5	\$ 39.3	\$ 40.1	\$ 362.6
Total Overtime Base Model	\$ 12.0	\$ 13.5	\$ 13.8	\$ 14.1	\$ 14.5	\$ 14.8	\$ 15.1	\$ 15.4	\$ 15.7	\$ 16.0	\$ 145.0
As a % of Payroll	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
New Payroll	\$ 0.1	\$ 1.9	\$ 2.2	\$ 3.3	\$ 3.7	\$ 3.8	\$ 3.9	\$ 4.1	\$ 4.4	\$ 4.7	\$ 32.1
Overtime Savings	\$ -	\$ (1.0)	\$ (5.6)	\$ (5.6)	\$ (5.7)	\$ (5.8)	\$ (6.0)	\$ (6.1)	\$ (6.1)	\$ (6.7)	\$ (48.7)
Consolidated DDOT Payroll	\$ 30.2	\$ 35.7	\$ 36.6	\$ 38.6	\$ 39.8	\$ 40.9	\$ 41.7	\$ 42.6	\$ 43.7	\$ 44.8	\$ 394.7
Consolidated Overtime	\$ 12.0	\$ 12.6	\$ 8.2	\$ 8.5	\$ 8.7	\$ 9.0	\$ 9.1	\$ 9.3	\$ 9.6	\$ 9.3	\$ 96.3
As a % of Payroll	39.8%	35.2%	22.3%	21.9%	21.9%	22.0%	21.8%	21.9%	22.0%	20.8%	24.4%

The City is expecting overtime for DDOT to decrease from its baseline estimate of 40% to 20.8% by FY2023. If the City is unsuccessful in decreasing overtime and overtime remains at 40% of payroll, the subsidy would be \$61 million higher than currently projected over the ten years.

Prior to the July 2nd projections, the City reexamined the projections for salaries and wages for new hires in the Police and Fire departments in the baseline 10 Yr projections. In the May 5th projections the City assumed all new hires would be at the average salary of the department. In reality, the new entry level employees hired will likely be at a much lower pay scale. Recalculating the actual salaries for these new employees in the baseline model results in \$48.5 million³⁵ in total savings for the ten year period:

Recalc of Police and Fire Base Model Hires	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Police	\$ -	\$ (1.1)	\$ (6.1)	\$ (3.5)	\$ (2.7)	\$ (1.9)	\$ (0.9)	\$ (0.2)	\$ (0.2)	\$ (0.2)	\$ (16.7)
Fire	\$ (2.9)	\$ (3.0)	\$ (3.0)	\$ (3.1)	\$ (3.1)	\$ (3.2)	\$ (3.3)	\$ (3.4)	\$ (3.4)	\$ (3.5)	\$ (31.8)
Total Add Backs for Pay Difference	\$ (2.9)	\$ (4.1)	\$ (9.1)	\$ (6.5)	\$ (5.8)	\$ (5.1)	\$ (4.2)	\$ (3.6)	\$ (3.6)	\$ (3.6)	\$ (48.5)

Professionals and Contractual Services

The City is projecting a \$10 million decrease in professional and contractual services over the 10 Yr projections. The savings are primarily related to the Income Tax department implementing CityTax and the need for less outside employment.

³⁵ The reduced costs associated with the changes in assumptions for the Police and Fire departments in this section do not include additional add backs for benefits which are \$5.8 million and \$13.3 million for the Police and Fire departments, respectively, and are included in the benefits section. Total reduced costs for the recalculation including salary, overtime and benefits is \$67.7 million for the two departments.

Benefits

The City estimated benefits using the following percentage of payroll projections:

Incremental Benefits as a % of Payroll	% of Payroll
Police	40.5%
Fire	42.0%
General Services	45.0%
DDOT - Transportation	49.2%

Using the above rates, the City estimates an additional \$105.1 million in benefits for employees hired as part of the RRI's:

Incremental Benefits	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Finance/Budget	\$ 0.2	\$ 2.2	\$ 2.8	\$ 2.9	\$ 3.0	\$ 3.1	\$ 3.1	\$ 3.2	\$ 3.3	\$ 3.3	\$ 27.2
Police	\$ 0.6	\$ 3.1	\$ 1.3	\$ 1.6	\$ 1.2	\$ 1.3	\$ 1.4	\$ 1.8	\$ 1.8	\$ 1.9	\$ 16.0
Fire	\$ (0.4)	\$ 1.3	\$ 0.7	\$ 1.9	\$ 1.8	\$ 0.7	\$ 0.4	\$ (0.4)	\$ (0.9)	\$ (1.6)	\$ 3.6
General Services	\$ 0.3	\$ 1.1	\$ 2.0	\$ 2.0	\$ 2.1	\$ 2.2	\$ 2.2	\$ 2.2	\$ 2.3	\$ 2.3	\$ 18.7
DDOT - Transportation	\$ 0.1	\$ 0.7	\$ 0.9	\$ 1.6	\$ 1.8	\$ 1.9	\$ 1.9	\$ 2.0	\$ 2.2	\$ 2.4	\$ 15.6
Law	\$ -	\$ 0.3	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.8	\$ 6.0
Mayor's Office	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.7	\$ 0.7	\$ 6.1
Human Resources	\$ -	\$ 0.4	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 5.6
Planning & Development	\$ 0.1	\$ 0.4	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 3.3
Ombudsperson	\$ -	\$ -	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 2.4
Labor Relations	\$ -	\$ 0.0	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 1.7
Human Rights / Board of Ethics	\$ -	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 1.4
Auditor General / Inspector General	\$ -	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 1.1
Airport	\$ -	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.7
Municipal Parking	\$ 0.0	\$ 0.1	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.1)
Buildings and Safety	\$ 0.0	\$ 0.0	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.1)
Elections	\$ -	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.2)
City Clerk	\$ -	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.7)
Non-Departmental (36D Initiatives)	\$ -	\$ (0.2)	\$ (0.3)	\$ (0.3)	\$ (0.3)	\$ (0.4)	\$ (0.4)	\$ (0.4)	\$ (0.4)	\$ (0.4)	\$ (3.0)
Total Incremental Benefits	\$ 1.3	\$ 10.2	\$ 10.2	\$ 12.7	\$ 12.6	\$ 11.8	\$ 11.9	\$ 11.6	\$ 11.5	\$ 11.3	\$ 105.1

The City took a conservative approach to estimating benefits in its RRI's by using higher percentages of payroll estimates than those used in the baseline forecasts:

Benefits as a % of Payroll	2015	2016	2017	2018	2019	2020	2021	2022	2023
Police	34.0%	35.1%	35.9%	36.7%	37.3%	37.7%	38.1%	38.5%	38.9%
Fire	37.0%	38.0%	38.7%	39.5%	40.0%	40.4%	40.7%	41.1%	41.5%
DDOT	44.4%	47.3%	49.8%	51.4%	52.4%	53.0%	53.7%	54.5%	55.3%
Non Uniform	39.2%	40.2%	41.0%	41.7%	42.4%	42.7%	43.1%	43.5%	43.8%

Training

The City is projecting \$54.4 million in training expenditures over the next ten years, beginning in mid FY2015. The estimate includes \$2,000 per employee per year for all non-uniform City employees through FY2017 and \$1,500 per employee per year after FY2017. The City also assumes \$600,000 in yearly city-wide Human Resources training beginning in FY2016. Fire department training to cross train employees and meet minimum grant standards is projected to be \$13.3 million during the time period. Below is a breakdown of training expenditures over the ten years:

Training	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Employee Training	\$ 0.0	\$ 3.2	\$ 4.9	\$ 4.1	\$ 4.1	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 4.0	\$ 36.3
Fire Training	\$ 0.3	\$ 4.1	\$ 3.7	\$ 1.6	\$ 0.7	\$ 0.6	\$ 0.5	\$ 0.6	\$ 0.7	\$ 0.4	\$ 13.3
HR Training	\$ -	\$ -	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 4.8
Total Training	\$ 0.3	\$ 7.3	\$ 9.2	\$ 6.3	\$ 5.4	\$ 5.2	\$ 5.1	\$ 5.2	\$ 5.3	\$ 5.0	\$ 54.4

Materials & Supplies

The City expects to spend \$87.1 million in additional materials and supplies related to the RRI's. The largest component is an additional \$65.1 million needed by the General Services department to repair city buildings and to provide adequate

levels of service to the City's operating departments. In addition the City expects to spend \$37.4 million on materials and supplies due to the additional routes projected by DDOT. The Police department expects to spend \$16.2 million on vests, improvements in technology and various other supplies.

The total additional expenditures related to materials and supplies are offset by \$35.8 million of projected cost savings from consolidation of vendors, improved department staffing and process related enhancements. Below is a breakdown of the projected increase in materials and supplies:

Materials and Supplies	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
M&S to Achieve Desired Service Levels	\$ 1.2	\$ 5.5	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 7.3	\$ 65.1
M&S due to Increased Miles Driven	\$ 0.4	\$ 0.9	\$ 1.9	\$ 3.0	\$ 4.0	\$ 4.5	\$ 5.0	\$ 5.4	\$ 5.9	\$ 6.4	\$ 37.4
Risk Management Technology	\$ -	\$ 0.3	\$ 2.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.7	\$ 0.6	\$ 0.6	\$ 0.6	\$ 7.2
Miscellaneous Police Supplies	\$ -	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.6	\$ 0.6	\$ 0.6	\$ 6.0
Vest Replacement	\$ 0.1	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4	\$ 3.1
Finance - Purchasing Savings	\$ 0.0	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (5.0)	\$ (5.0)	\$ (5.0)	\$ (5.0)	\$ (5.0)	\$ (5.0)	\$ (35.8)
All Other M&S	\$ 0.3	\$ 0.8	\$ 0.6	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 4.2
Total Material and Supplies	\$ 2.0	\$ 6.6	\$ 11.5	\$ 10.2	\$ 8.3	\$ 8.8	\$ 9.4	\$ 9.6	\$ 10.1	\$ 10.6	\$ 87.1

Risk Management & Insurance

The City is projecting \$50.7 million in savings related to risk management and insurance. The savings are projected as a result of reduced workers comp payments due to an improved risk management function and better claims processing. In addition, the City projects \$2 million of yearly savings due to a reduction in lawsuits through improved risk management. Below is a summary:

Risk Management and Insurance	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Workers Comp Savings	\$ -	\$ -	\$ (4.0)	\$ (4.0)	\$ (4.0)	\$ (4.0)	\$ (4.0)	\$ (4.0)	\$ (4.0)	\$ (4.0)	\$ (32.0)
Reduction in Lawsuits	\$ -	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (2.0)	\$ (18.0)
All Other	\$ -	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.7)
Total Risk Management & Insurance	\$ -	\$ (2.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (6.1)	\$ (50.7)

Other Operating Expenditures

Other operating expenditures over the ten year period include:

- Utilities: \$2.6 million in additional costs projected by the General Services department
- Purchased Services:
 - \$4.5 million in savings related to \$6.75 million less outside legal costs due to additional labor in the Law department
 - \$5.7 million in savings due to less involvement from consultants in the Finance department
 - \$1.1 million in additional expenditures related to additional DDOT miles
 - \$1.9 million in additional outside services in the Police department
 - \$1.7 million for storage and maintenance of medical records due to the outsourcing of the Health and Wellness department
 - \$1.3 million in additional actuarial and benefit consulting
 - \$1.2 million in security and planning related to the Airport department.
- Grants: \$20.3 million in grant related costs associated with the Hardest Hit Fund from FY2014-2016
- Other Expenses:
 - \$17.4 million in other savings as a result of the Neighborhood and Lean Process Improvement Program
 - \$7.1 million in costs in the Police department mostly related to new facilities

Reorganization/Investment

The City is projecting it will incur an additional \$582 million in capital expenditures and infrastructure improvements in the next 10 years to improve the City's level of services. The City views these initiatives as critical components in stabilizing the City and attracting and retaining quality employees for the City of Detroit.

Technology & Infrastructure

The City's IT department has been underfunded for many years and is in need of a significant upgrade to its operating systems, software and hardware. The City expects to undertake a number of initiatives to improve the current systems in place including:

- \$29 million related to a new ERP System which includes both installation and annual maintenance to improve the City's financial processes and reporting
- \$11.7 million related to City wide hardware upgrades
- \$10.9 million related to data backup centers
- \$10.4 million related to the City-wide installation of Microsoft 365
- \$5.2 million related to the implementation of CityTax

Other significant investments which will provide better services to the citizens of the Detroit include the installation and implementation of a new 311 system, implementation of an integrated public safety system and replacement of handheld Police radios. Below is a breakdown of key IT and infrastructure investments over the next ten years:

IT and Infrastructure	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
ERP System	Finance	\$ -	\$ 7.4	\$ 10.3	\$ 9.0	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 29.0
Replacement of Radios	Police	\$ -	\$ 7.5	\$ 7.5	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 22.0
Implementation of Integrated Public Safety System	Police	\$ -	\$ 4.5	\$ 2.5	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 13.8
Hardware Upgrade	Finance	\$ -	\$ 1.5	\$ 2.0	\$ 2.0	\$ 1.2	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 11.7
Data Back Up Center	Finance	\$ -	\$ -	\$ 4.9	\$ 2.4	\$ 0.2	\$ 0.2	\$ 2.7	\$ 0.2	\$ 0.2	\$ 0.2	\$ 10.9
Microsoft Application Department - 365 Cloud (Net of Savings)	Finance	\$ -	\$ 1.3	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 10.4
311 System	Ombudsperson	\$ -	\$ -	\$ 3.0	\$ 0.5	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 7.0
Document Imaging and Management System	Finance	\$ -	\$ 3.0	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 5.4
Implementation of City Tax	Finance	\$ 0.1	\$ 1.7	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 5.2
Upgrades to 36th District Court Technology	Non Departmental	\$ -	\$ 1.6	\$ 0.8	\$ 0.4	\$ 0.4	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 4.2
Citywide Network Infrastructure	Finance	\$ -	\$ 2.0	\$ -	\$ -	\$ 1.1	\$ -	\$ -	\$ 1.1	\$ -	\$ -	\$ 4.2
Security Access System to Building	Finance	\$ -	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 3.8
Workbrain Upgrades	Finance	\$ 1.1	\$ -	\$ -	\$ -	\$ 1.2	\$ -	\$ -	\$ -	\$ 1.3	\$ -	\$ 3.6
Fire Vehicle Technology Upgrade	Fire	\$ -	\$ 0.7	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.7	\$ 0.1	\$ 0.1	\$ 0.1	\$ 2.2
Helpdesk Software	Finance	\$ -	\$ 1.6	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 2.0
Active Directory Service Migration	Finance	\$ -	\$ 1.3	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 2.0
Cashiering Controls	Finance	\$ -	\$ 1.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.4
HR Learning Center and Implementation	HR	\$ -	\$ 0.5	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 1.3
Operating System Upgrade	Finance	\$ -	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0
SQL Server Update	Finance	\$ -	\$ 0.2	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.7
All Other	Various	\$ 1.9	\$ 3.6	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.6	\$ 0.7	\$ 0.5	\$ 0.5	\$ 9.8
Total IT and Infrastructure		\$ 3.1	\$ 41.3	\$ 34.4	\$ 19.6	\$ 10.1	\$ 7.4	\$ 10.7	\$ 8.8	\$ 8.8	\$ 7.5	\$ 151.7

Capital Expenditures

The City has identified a number of facility-related capital expenditures including current facility repairs and new or replacement facilities, some of which are itemized below.

- \$40.3 million for repairs and space consolidation across all City buildings
- \$37 million for facility improvements and emergency repairs to the various parks and recreation centers

- \$34.2 million for a new Police training facility, new precincts and various improvements to current buildings
- \$71.3 million for Fire department improvements including \$31.2 million in repairs and maintenance to current firehouses, \$21 million for 7 new firehouses and \$19 million in new gear and equipment
- \$15.7 million in required airport upgrades by the Department of Transportation
- \$10.3 million in system and equipment upgrades for DDOT that are not grant funded.

The chart below details the capital expenditures the City is projecting over the ten year period:

Capital Expenditures	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Department City Wide Projects and Space Consolidation	GSD	\$ 1.2	\$ 5.1	\$ 7.2	\$ 4.8	\$ 3.8	\$ 3.6	\$ 3.6	\$ 3.8	\$ 3.7	\$ 3.7	\$ 40.3
Facility Improvements/Upgrades and Emergency Repairs	Recreation	\$ 0.9	\$ 4.8	\$ 4.1	\$ 4.8	\$ 4.0	\$ 4.5	\$ 3.9	\$ 3.3	\$ 3.3	\$ 3.3	\$ 37.0
Department wide improvement projects, New Training Facility and New Precincts	Police	\$ 0.7	\$ 13.7	\$ 6.5	\$ 0.1	\$ 0.5	\$ 0.2	\$ 3.3	\$ 3.1	\$ 3.0	\$ 3.0	\$ 34.2
R&M of Fire Department Facilities	Fire	\$ 1.1	\$ 3.0	\$ 5.5	\$ 2.4	\$ 1.1	\$ 2.0	\$ 5.1	\$ 4.1	\$ 3.0	\$ 4.0	\$ 31.2
New Firehouses	Fire	\$ -	\$ -	\$ 3.0	\$ 3.0	\$ 3.0	\$ 6.0	\$ 3.0	\$ 3.0	\$ -	\$ -	\$ 21.0
Gear and equipment	Fire	\$ 2.0	\$ 3.0	\$ 1.4	\$ 2.1	\$ 1.7	\$ 1.7	\$ 1.7	\$ 1.5	\$ 2.4	\$ 1.5	\$ 19.0
Executive Bay Upgrades, New Jetway, Terminal Upgrades and Other Improvements	Airport	\$ -	\$ 0.4	\$ 5.0	\$ 5.3	\$ 5.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15.7
ERP, Security, Fleet Mgt, Radio, AVL & APC System Upgrades (All Non Grant Funded)	DDOT	\$ -	\$ 1.6	\$ 2.0	\$ 2.3	\$ 2.5	\$ 1.0	\$ 1.0	\$ -	\$ -	\$ -	\$ 10.3
Herman Keifer Demolition Costs	Health and Wellness	\$ -	\$ -	\$ 5.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5.1
R&M for buildings	Non Departmental	\$ -	\$ 1.0	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 5.0
Upgrades to Caniff Impound Lot	Parking	\$ -	\$ 0.7	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 2.0
Training Location	HR	\$ -	\$ -	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0
All Other	Various	\$ -	\$ 0.4	\$ 0.3	\$ 0.6	\$ 0.3	\$ -	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 3.7
Total CapEx		\$ 5.9	\$ 33.5	\$ 41.7	\$ 26.1	\$ 22.4	\$ 19.5	\$ 22.7	\$ 20.0	\$ 16.7	\$ 16.8	\$ 225.4

Fleet

The City reviewed the current condition of vehicles in the Police, Fire, GSD and Parking departments. The City projected the number of vehicles needed by department to supply adequate levels of service to the City. The City then projected the cost per vehicle and projected life cycles for each vehicle to determine the yearly number of vehicles to be purchased and the related cost.

- The Police Department projects an average life cycle of 3.5 years resulting in 270 new scout cars costing \$91.3 million over the next ten years
- Fleet purchases for the Fire Department include \$40 million for new purchases and \$18.6 million for repairs of their current fleet
- The General Services department projects spending \$6.4 million over the next ten years on purchases of new vehicles and equipment and \$9.7 million on upgrades to City owned parks
- The Parking Department expects to spend \$1.4 million over the next ten on vehicles

The chart below outlines fleet spending over the ten year period:

Fleet	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Fleet replacement - Police	Police	\$ -	\$ 9.5	\$ 11.7	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 91.3
Fleet Replacement Program and Preventive Maintenance Program	Fire	\$ 6.2	\$ 11.7	\$ 9.0	\$ 5.9	\$ 5.7	\$ 4.9	\$ 5.1	\$ 4.5	\$ 3.0	\$ 2.7	\$ 58.6
Upgrade Parks	GSD	\$ 1.2	\$ 3.5	\$ 2.5	\$ 2.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.7
Replacement of vehicles	GSD	\$ 0.9	\$ 0.7	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 6.4
Fleet replacement - Parking	Parking	\$ -	\$ 0.4	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 1.4
Total Fleet		\$ 8.3	\$ 25.8	\$ 24.0	\$ 19.1	\$ 16.4	\$ 15.7	\$ 15.8	\$ 15.2	\$ 13.7	\$ 13.4	\$ 167.4

Reorganization

The City is expecting to incur various expenses related to implementing the RRI's. These are generally one-time expenses and include:

- \$15.4 million in costs related to reassessing and revaluing all properties in the City
- \$10.2 million related to outside services for strategic planning, facility consolidation and zoning activities
- \$3.7 million for contract employees at the 36th District Court related to restructuring initiatives.

Reinvestment Deferrals

As the City negotiated settlements with creditors and stakeholders, proposed POA payments have taken priority over RRI spending in the near term. As a result, there has been a need to permanently or temporarily defer RRIs in order to maintain adequate levels of liquidity to fund operations and meet the obligations proposed in the POA. The updated July 2nd projections identify all but \$29.8 million of the deferrals as to the individual RRI and the timing. In general, the City sought to defer RRIs that would have the least impact on future revenue and cost savings. If the City enters into additional settlements with creditors, it is likely that additional RRI deferrals will be necessary.

Non Operating Expenditures

The City projected a number of necessary non-operating expenditures in the POA projections. These include one-time costs associated with the chapter 9, decommission of the City's power plants, payments required in the POA and a 1% contingency, among other items. These expenses are detailed below:

<u>Other Non Operating Expenses</u>	<u>10 Year Total</u>
Professional Fees	\$ 130
PLD Decommission	\$ 75
Working Capital	\$ 25
Contributions to Income Stabilization Fund	\$ 18
Secured Debt	\$ 391
QOL Exit Financing	\$ 336
Swap Interest	\$ 104
Contingency	\$ 101
Total Non Operating Expenses	\$ 1,179

Professional Fees

The City projected professional fees for the various constituents involved in the Chapter 9 case. The City projected \$82.2 million and \$47.8 million in professional fees in for FY2014 and FY2015 respectively. The City assumes at the time of emergence the professional fees for the majority of the firms projected will be discontinued. The chart below highlights the professional fees by firm:

Professional Fees	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
City Professional fees											
Conway Mackenzie (Ops)	\$ 14.0	\$ 6.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20.5
Ernst & Young (FA)	\$ 13.4	\$ 4.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18.3
Jones Day (Counsel)	\$ 35.7	\$ 10.9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46.6
Miller Buckfire (IB)	\$ 5.4	\$ 19.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24.9
Milliman (actuary)	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0
Total City Professional Fees	\$ 69.5	\$ 41.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111.3
Creditors Professional fees											
Lazard (FA)	\$ 1.8	\$ 0.7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.5
Denton (Counsel)	\$ 13.8	\$ 5.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18.8
Brooks Wilkins Sharkey & Turco PLLC (local	\$ 0.8	\$ 0.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.1
Segal (actuary)	tbd	tbd	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 16.3	\$ 6.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22.3
Total Creditors Professional fees	\$ 85.8	\$ 47.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133.6
Less: State reimbursements for advisor fees	\$ (3.6)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3.6)
Total Professional fees	\$ 82.2	\$ 47.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130.0

PLD Decommission

Street lights will be transitioned to the Public Lighting Authority during FY2015-2023. The City estimates approximately \$75 million over a ten year period in decommission expenses. The City assumed \$2.4 million for each of its 31 substations. Below are expected expenditures per year:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
PLD Decommission	\$ -	\$ 2.5	\$ 5.0	\$ 15.0	\$ 10.0	\$ 10.0	\$ 10.0	\$ 12.5	\$ 10.0	\$ -	\$ 75.0

Working Capital

The City estimates additional expenditures related to working capital in FY2014 of \$39.9 million primarily related to past due vendor payments. This amount is offset by \$20 million in proceeds from a bond escrow fund. The chart below identifies the working capital impact over the next 2 years.

Identified risks and opportunities to 10-year plan	2014	2015	Total
Higher Transportation Dept (DDOT) operating subsidy in CF	\$ 2.0	\$ 5.0	\$ 7.0
Accounts payable vendor risk in CF	\$ 30.0	\$ -	\$ 30.0
Cash escrow reserve requirement for self-insurance	\$ 7.8	\$ -	\$ 7.8
Refunding bond proceeds drawn from escrow	\$ -	\$ (20.0)	\$ (20.0)
Total	\$ 39.8	\$ (15.0)	\$ 24.8

Income Stabilization Fund

The Income Stabilization Fund is the result of negotiations between the City and the PFRS and GRS. \$20 million will be paid to pensioners that meet the following criteria:

- Eligible pensioner's total household income is equal to 130% of the federal poverty Level in 2013 or:
- The annual pension benefit payment payable to each eligible pensioner equals 100% of the annual pension benefit payment actually received by the eligible pensioner in 2013, whichever amount is lower.

The payments will be made over a 14 year period from excess funds from the UTGO property Tax Millage after accounting for UTGO Secured debt payments and Note A UTGO debt payments. Below highlights the projected payments over the ten year period:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
Income Stabilization Fund	\$ 2.5	\$ 2.3	\$ 2.3	\$ 2.2	\$ 2.1	\$ 2.1	\$ 2.0	\$ 1.3	\$ 1.1	\$ 17.8

Secured Debt

The City projects debt payments for secured debt to continue to be paid via the same amortization schedules used prior to filing Chapter 9. Below is the detailed amortization schedule for each tranche of debt:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
UTGO Secured Debt											
Beginning Principal - UTGO DSA	\$ 100.0	\$ 98.4	\$ 96.5	\$ 94.4	\$ 92.2	\$ 89.8	\$ 87.2	\$ 84.5	\$ 81.6	\$ 78.4	\$ 100.0
Principal	\$ 1.6	\$ 2.0	\$ 2.1	\$ 2.2	\$ 2.4	\$ 2.5	\$ 2.7	\$ 2.9	\$ 3.2	\$ 3.4	\$ 25.0
Ending Balance	\$ 98.4	\$ 96.5	\$ 94.4	\$ 92.2	\$ 89.8	\$ 87.2	\$ 84.5	\$ 81.6	\$ 78.4	\$ 75.0	\$ 75.0
Interest	\$ 8.0	\$ 7.9	\$ 7.8	\$ 7.7	\$ 7.5	\$ 7.4	\$ 7.2	\$ 7.0	\$ 6.8	\$ 6.6	\$ 73.8
LTGO Secured											
Beginning Principal - LTGO DSA	\$ 249.8	\$ 245.5	\$ 238.8	\$ 231.8	\$ 224.5	\$ 216.7	\$ 208.6	\$ 200.0	\$ 191.0	\$ 181.7	\$ 249.8
Principal (Based on Set-Asides)	\$ 4.3	\$ 6.7	\$ 7.0	\$ 7.4	\$ 7.7	\$ 8.1	\$ 8.6	\$ 9.0	\$ 9.4	\$ 9.8	\$ 78.0
Ending Balance	\$ 245.5	\$ 238.8	\$ 231.8	\$ 224.5	\$ 216.7	\$ 208.6	\$ 200.0	\$ 191.0	\$ 181.7	\$ 171.8	\$ 171.8
Interest (Based on Set-Asides)	\$ 12.6	\$ 12.4	\$ 12.0	\$ 11.7	\$ 11.3	\$ 10.9	\$ 10.5	\$ 10.1	\$ 9.7	\$ 9.3	\$ 110.3
LTGO Secured - 2012 Refinancing											
Beginning Principal (For GF, actual Debt Service different)	\$ 129.5	\$ 126.6	\$ 122.2	\$ 117.6	\$ 112.7	\$ 107.6	\$ 102.3	\$ 96.7	\$ 90.9	\$ 84.7	\$ 129.5
Principal	\$ 2.9	\$ 4.4	\$ 4.6	\$ 4.9	\$ 5.1	\$ 5.3	\$ 5.6	\$ 5.8	\$ 6.1	\$ 6.5	\$ 51.3
Ending Balance	\$ 126.6	\$ 122.2	\$ 117.6	\$ 112.7	\$ 107.6	\$ 102.3	\$ 96.7	\$ 90.9	\$ 84.7	\$ 78.3	\$ 78.3
Interest	\$ 6.1	\$ 6.0	\$ 5.8	\$ 5.6	\$ 5.4	\$ 5.1	\$ 4.9	\$ 4.7	\$ 4.4	\$ 4.1	\$ 52.2
Yearly Secured Debt Payments	\$ 35.4	\$ 39.4	\$ 39.4	\$ 39.4	\$ 39.4	\$ 39.4	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.6	\$ 390.5

Quality of Life/Exit Financing

The City plans to draw down \$292.7 million on its \$300 million Exit Facility by the end of FY2016. The current quality of life loan is expected to be refinanced as part of the exit facility at the emergence of bankruptcy. The Exit Facility bears interest at 6% and matures in 2026. The City begins to make principal payments on the loan starting in 2019.

Swap Interest

The City assumes the agreed upon settlement of the PFRS and GRS Swaps of \$85 million at emergence from bankruptcy. The City has continued to make quarterly swap payments while in bankruptcy. The payments made to date will be

deducted from the final payment made at settlement. Below are the projected payments in FY2014 and FY2015 and reconciliation of the final payment assumed to occur in October 2014:

	2014	2015	Total
POC Swaps			
PFRS Interest	\$ 29.6	\$ 10.2	\$ 39.8
GRS Interest	\$ 16.3	\$ 5.5	\$ 21.9
POC Swap Payment	\$ 45.9	\$ 15.7	\$ 61.6
Swap Settlement		\$ 42.1	\$ 42.1
Total Swap Payments	\$ 45.9	\$ 57.8	\$ 103.8

Reconciliation of Final Payment	Total
Settlement	\$ 85.0
FY14 int. payments (Post Bankruptcy)	\$ 27.2
FY15 Int. payments (Prior to Emergence from Bankruptcy)	\$ 15.7
Bulk payment in Oct, 2014	\$ 42.1

Contingency

The City assumed a yearly contingency estimate of 1% of total revenue. Total revenue includes revenue from the base plan, revenue from the RRI's and proceeds from the Exit Facility. Total contingency is \$101 million over the ten year period. Public Acts 181 and 182 of 2014, part of the so called Grand Bargain legislation requires a contingency of not less than 5% of projected expenses in each year. This difference in the amount of contingency is approximately \$40 million in FY2015.

Section I - Systems, Controls and Reporting

Introduction

“The effective use of technology is an essential foundation of a modern, efficient and effective government, and that absent a modernized IT infrastructure, a city is unable to adequately deliver government services for the public.”³⁶

This quote is from Beth Niblock’s Report filed in connection with the Detroit bankruptcy. Ms. Niblock, the City of Detroit’s Chief Information Officer, also concludes in her report that: “The City’s information technology is deficient”.³⁷ I agree that a working technological platform allows the City to properly operate. I also believe that the City’s IT infrastructure is so broken that, left unaddressed, threatens the City’s ability to meet the commitments in the POA. The City’s current technology infrastructure problems are the direct result of long term, systematic underfunding and lack of leadership.

³⁶ Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, para 6 page 3.

³⁷ Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, para 4.A. page 3.

Nowhere is this failure as evident as it is in the City's Finance departments. The lack of accounting and financial information systems confounds virtually every City operation and makes it difficult to perform even basic analysis or performance monitoring. The Emergency Manager's description below provides a realistic picture of the City's current systems:

*"The City's core financial, accounting and budgeting systems similarly suffer from the lack of modern IT. The City's financial reporting and budget development systems: (a) are 10 to 15 years old; (b) require a manual interface (70% of journal entries are booked manually); (c) lack reliable fail-over and back-up systems; and (d) lack a formal, documented IT governance structure, all of which impairs the reporting, efficiency and accuracy of the data and the accountability of the systems. The City's grant tracking systems are fragmented and unstandardized to the extent that the City is unable to comprehensively track citywide grant funds and status or prevent disallowed costs. Aged IT infrastructure within the City's Buildings, Safety Engineering and Environmental Department ("BSEED") and the DFD leads to bottlenecks in permit invoicing and collections...."*³⁸

These issues will not be addressed overnight, nor will they be easy. The funding, implementation, and management of new information and reporting systems are critical to adequately deliver government services to the public. The City has accumulated dozens of non-integrated systems which make it impossible to obtain the timely and reliable systemic information necessary for efficient operations and informed decision making. The remainder of this section will discuss some

³⁸ Declaration of Kevyn Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code. Page 30, para 41.

particular challenges with accounting and financial controls and reporting and conclude with a discussion of the broader issues surrounding the investments the City must make in IT.

Accounting Controls and Processes

Of all of the measurable impacts of the City's IT, Accounting Control and Reporting problems, perhaps the most visible is the impact on the City's financial reporting, which affects the ability of City leaders and department heads to make real time, informed decisions. In the City's 2012 Independent Auditors Report, KMPG states:

“Although the City of Detroit (City) has made incremental improvement in their financial closing and reporting processes, deficiencies still exist in the processes to evaluate accounts, and timely record entries into the general ledger in a complete and accurate manner”³⁹

Historically, the City has not performed monthly closings or published monthly financial statements. The City's accounting “closing” process is so inefficient that recent attempts the City has made to implement a monthly General Ledger (“G/L”) closing and financial statement preparation process have failed.

³⁹ Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, KPMG, 2012, Pg 3

Going forward, I believe the City needs to prioritize monthly financial reporting against the City's budget. A monthly closing process will enable the City's leaders to make the continuous large and small adjustments needed to promote directional compliance with the Plan.

KPMG has determined the City's system of internal accounting controls and procedures are so weak that KPMG cannot rely on them when performing the year-end audit. The ineffectiveness of the current financial systems does not allow the City to internally perform essential daily tasks such as account reconciliations, bank reconciliations, and account analysis, which are the cornerstones of good accounting controls. Rather, these activities are performed once a year by outside consultants as part of preparation for the annual audit process. To that end, KPMG performs substantive testing of all accounts to its materiality threshold in order to render an opinion on the City's financial statements and explains why it takes the City about twelve months to prepare fiscal year-end financial reports.

Financial Reporting

Perhaps the only standardized financial reporting that the City undertakes is the development of the Comprehensive Annual Financial Report ("CAFR") which is promulgated by the Government Finance Officers Association. The CAFR is

essentially a comprehensive look at the City's financial position and performance. The City's CAFR for the fiscal year ended June 30, 2013 has not been released as of the date of this Report.

Another of the City's major reporting tasks is performed by Ernst & Young. E&Y prepares daily, weekly and monthly reports of cash, revenues, and expenditures. These reports track the City's available cash using bank statements and numerous other City documents that report one or more cash activities. These reports are independently generated and are not reconciled to the City's general ledger system through account reconciliations or bank reconciliations. These E&Y reports are consolidated for multiple accounting periods, as well as reported separately in other City reports including those of the Emergency Manager. The current cash management and cash reporting system has been managed by E&Y personnel since before the appointment of the Emergency Manager. It is my understanding that the City has not budgeted for E&Y continuing in this role after confirmation, nor has the City made accommodations to take over this work from E&Y. This is an unacceptable risk to the success of the POA and the City must identify and fund a solution for both the near term and longer term.

Whenever contemporaneous financial information is required, the City has no choice but to rely on the incomplete and unreliable financial data from the G/L system. As such, external reports such as the Emergency Manager's reports to Financial Advisory Board contain necessary disclaimers such as:

“The revenues and expenditures report includes entries that have not been posted in the general ledger and encumbrances. This manner of presentation provides the most up to date data on revenues and expenditures. Unposted entries are preliminary and subject to review before they are finalized; therefore, actual results will likely be different from the preliminary results presented herein, and those differences may be material.”⁴⁰

Potential Plan Implications

Beyond financial reporting, the efficient and controlled execution of the accounting and finance functions are essential to achieving the financial initiatives set forth in the Plan. Some of the most important assumptions in the POA depend on improving the accounting and finance function within the City. For example:

- Municipal Income Taxes: the City processes and audits income tax returns, and collects income tax revenues which account for 25% of the City's revenue in FY2014-2023
- Purchasing: the City's purchasing function manages the City's contracts for all commodities and services which are forecasted to total \$3 billion in the next ten years
- Property Taxes: The assessor's office creates the tax rolls used to invoice citizens and commercial customers for real estate taxes which are estimated to account for 9% of the City's revenue in FY2014-2023 and the Treasury department is responsible for the billing and collection function

⁴⁰ Emergency Manager's report

- Grants: Grant funding is expected to increase in the City going forward. In fact, there are additional opportunities for the City to acquire grants if it can responsibly manage and account for them. The City has failed to properly account for and manage grants in the past which has led to improperly spent funds. The City can benefit by tens of millions of dollars if this process is improved

The diminished capacity of these finance departments to execute their basic functions is a result of attrition and an historic failure to invest in people and systems. If the City does not build internal capacity in its finance and accounting functions in a timely fashion, it could threaten the execution of the POA.

Information Technology

The City, as detailed in the Plan, is addressing its system issues with a number of major initiatives funded as part of the RRI's. These IT-related initiatives include:

- \$29 million related to a new Enterprise Resource Planning ("ERP") system, which includes both the installation and annual maintenance to improve the City's financial processes and reporting.
- \$11.7 million related to City-wide hardware upgrades.
- \$10.9 million related to Data Back Up centers.
- \$10.4 million related to the City-wide installation of Microsoft 365.
- \$5.2 million related to the implementation of City Tax.

While the IT department expects to spend almost \$85 million on restructuring initiatives over the next 10 years, the total investment in IT related expenses by the City is upwards of \$150 million. It should be noted that this figure does not include

a budget of \$3 million for the implementation of a replacement payroll system, which is included in E&Y's base line financial projections. We believe the City would benefit with a more centralized control over all IT related investments. The following chart details the significant IT-related restructuring initiatives out of each of the departmental RRI's:

IT and Infrastructure	Department	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Ten Year Total
ERP System	Finance	\$ -	\$ 7.4	\$ 10.3	\$ 9.0	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 29.0
Replacement of Radios	Police	\$ -	\$ 7.5	\$ 7.5	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 22.0
Implementation of Integrated Public Safety System	Police	\$ -	\$ 4.5	\$ 2.5	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 13.8
Hardware Upgrade	Finance	\$ -	\$ 1.5	\$ 2.0	\$ 2.0	\$ 1.2	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 11.7
Data Back Up Center	Finance	\$ -	\$ -	\$ 4.9	\$ 2.4	\$ 0.2	\$ 0.2	\$ 2.7	\$ 0.2	\$ 0.2	\$ 0.2	\$ 10.9
Microsoft Application Department - 365 Cloud (Net of Savings)	Finance	\$ -	\$ 1.3	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 10.4
311 System	Ombudsperson	\$ -	\$ -	\$ 3.0	\$ 0.5	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 7.0
Document Imaging and Management System	Finance	\$ -	\$ 3.0	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 5.4
Implementation of City Tax	Finance	\$ 0.1	\$ 1.7	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 5.2
Upgrades to 36th District Court Technology	Non Departmental	\$ -	\$ 1.6	\$ 0.8	\$ 0.4	\$ 0.4	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 4.2
Citywide Network Infrastructure	Finance	\$ -	\$ 2.0	\$ -	\$ -	\$ 1.1	\$ -	\$ -	\$ 1.1	\$ -	\$ -	\$ 4.2
Security Access System to Building	Finance	\$ -	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4	\$ 3.8
Workbrain Upgrades	Finance	\$ 1.1	\$ -	\$ -	\$ -	\$ 1.2	\$ -	\$ -	\$ -	\$ 1.3	\$ -	\$ 3.6
Fire Vehicle Technology Upgrade	Fire	\$ -	\$ 0.7	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.7	\$ 0.1	\$ 0.1	\$ 0.1	\$ 2.2
Helpdesk Software	Finance	\$ -	\$ 1.6	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 2.0
Active Directory Service Migration	Finance	\$ -	\$ 1.3	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 2.0
Cashiering Controls	Finance	\$ -	\$ 1.4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.4
HR Learning Center and Implementation	HR	\$ -	\$ 0.5	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 1.3
Operating System Upgrade	Finance	\$ -	\$ 1.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0
SQL Server Update	Finance	\$ -	\$ 0.2	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.7
All Other	Various	\$ 1.9	\$ 3.6	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.6	\$ 0.7	\$ 0.5	\$ 0.5	\$ 9.8
Total IT and Infrastructure		\$ 3.1	\$ 41.3	\$ 34.4	\$ 19.6	\$ 10.1	\$ 7.4	\$ 10.7	\$ 8.8	\$ 8.8	\$ 7.5	\$ 151.7

These initiatives are a significant investment and present an opportunity for the City to improve services and functionality throughout its operations. However, to enhance the City's ability to execute the proposals within the POA, the City will need to manage the execution of the IT initiatives at the most senior level in the City and make sure that it reacts to any material deviations - from cost or timeline - in the implementations.

According to CFO John Hill, the City's strategy to correct this catastrophic decline in essential finance, accounting and IT services has three major components:

- Implement a new payroll system and restructure the existing payroll reporting structure
- Implement a new integrated ERP system without customization accompanied by the implementation of the ERP's "best practices" policies and business processing procedures
- Restructure the existing organization structure, processes and controls.

Replacing the payroll system is considered to be of the highest priority by everyone we spoke with. Under the existing organization structure, payroll processing reports operationally to the Human Resources department. The Payroll system technology is under the jurisdiction of the City's IT department. Under the envisioned Finance and Accounting reorganization, payroll processing would report to the CFO, as it should.

The second part of this major undertaking is to implement a new, integrated ERP system along with established "Best Practices" for policies, procedures and business processes. The City's IT department will have overall responsibility for the implementation forecasted to take approximately 2-3 years and cost approximately \$29 million.⁴¹ The objective will be to replace the existing Oracle ERP system with an updated, integrated ERP system that will:

- Replace various standalone Finance and Accounting systems
- Eliminate the manual loading of data coming from other stand-alone systems as is done with the current Oracle ERP system
- Improve efficiencies and implement strong systematic internal controls

⁴¹ Per the Conway McKenzie IT restructuring budget.

- Ensure an interim closing process and preparation of interim financial statements and other reporting necessary for the City to manage its financial affairs

The City believes that it will take several years to implement a new ERP system and, in the interim, the City will have to rely on the existing systems. Although many of the inefficiencies and control weaknesses cannot be eliminated, the City believes the main ERP weaknesses can be mitigated by strengthening the organizational structure and hiring employees with enhanced skill sets at all levels and functions, but primarily mid-tier management. John Hill described the City's strategy as:

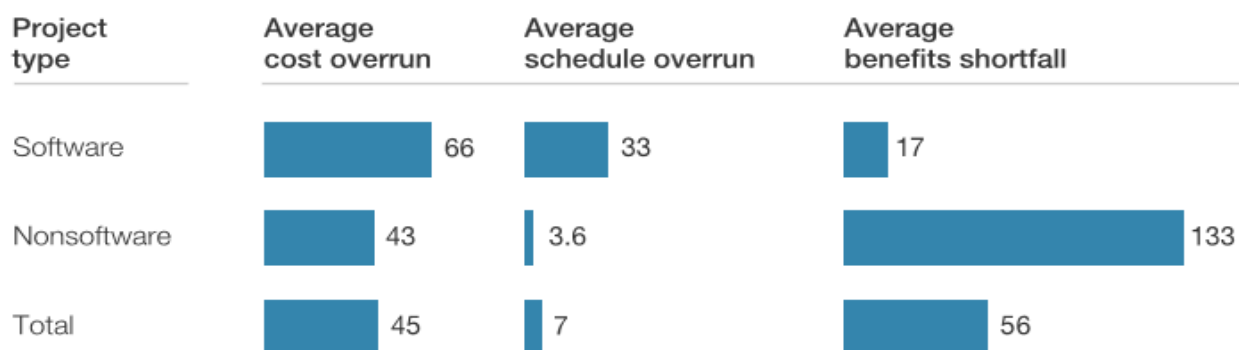
- Restructure the Organization to establish better functionality
 - Implement a flatter, functionally-orientated organization chart
 - Strengthen mid-tier managers to provide better supervision and accountability
 - Establish centralized governance of City-wide Finance and Accounting functions with the CFO or alternative centralized governing body
 - Establish centralized governance of City-wide IT functions with the CIO or alternative centralized governing body.
- Revise and upgrade job descriptions and applicant skill set requirements and qualifications
- Update the City's outdated and uncompetitive compensation structure to enable the City to attract and retain qualified employees
- Implement new recruiting processes
- Implement initiatives aimed at correcting major deficiencies in each department's existing systems and procedures

Risk of Failure

The above strategy was created to help ensure the successful implementation of the IT system initiatives. Large IT systems initiatives have historically contained an inherent risk. McKinsey & Co. notes that:

As IT systems become an important competitive element in many industries, technology projects are getting larger, touching more parts of the organization, and posing a risk to the company if something goes wrong. Unfortunately, things often do go wrong. Our research, conducted in collaboration with the University of Oxford, suggests that half of all large IT projects—defined as those with initial price tags exceeding \$15 million—massively blow their budgets. On average, large IT projects run 45 percent over budget and 7 percent over time, while delivering 56 percent less value than predicted. Software projects run the highest risk of cost and schedule overruns

% of IT projects with given issue (for those with budgets >\$15 million in 2010 dollars)



Source: McKinsey–Oxford study on reference-class forecasting for IT projects

The root causes of cost overruns in IT systems implementations for projects over \$15 million include: unclear objectives and lack of business focus, shifting

requirements and technical complexity, unaligned teams, lack of skills, unrealistic schedule and reactive planning.⁴²

Impact on Feasibility

The risks associated with the IT initiatives alone, warrant additional financial contingency beyond the general 1% assumption in the POA projections. Systems, controls and reporting concerns are high on the list of long term threats to feasibility. It is critical that the City effectively implements the IT initiatives which lay the foundation of many of the other benefits associated with the RRI's. Detroit will need strong leadership and exceptional tenacity to accomplish the initiatives on time and on budget.

I am encouraged by the City's recent decision to terminate its efforts to outsource payroll due to a poor design for the implementation. Current City leadership appropriately abandoned this project, despite having previously spent several million dollars in the pre-implementation phase, when they realized the vendor was trying to automate the City's antiquated payroll system rather than implement a new system that would meet the needs of the City going forward. This exemplifies why the most senior levels of City leadership, including the Mayor, CFO

⁴² McKinsey Report on the City of Detroit, May 2011

and CIO, must be actively involved in the strategy and implementation plans to ensure success and progress with clear measurement metrics.

Section J - Pensions

Introduction

Detroit's legacy retirement obligations, combining both pensions and OPEB, are the City's largest liability when combining the funded and unfunded liabilities. Additionally, these liabilities are arguably the most visible to the City's retirees, current employees, and to its citizens, generally. Despite the relative importance, the magnitude of the City's retirement obligations and the methods for calculating them are largely unknown. Assessing the City's future pension and OPEB responsibilities involves, among other factors, forecasted health care costs, complex actuarial models⁴³, and assumptions for the anticipated rate of returns on the pensions' assets and the rate used to discount the plans' future liabilities. Critical decisions made today will have a substantial impact on the City's liquidity in future

⁴³ Traditional actuarial forecasts imbed assumptions related to pensioners' mortality, rates of retirement, salary increases, overtime, disability rates, interest earned on assets, and pension plan administrative expenses.

years. The magnitude and importance of these decisions will be critical to Detroit's viability in the decades to come.

Background

The City of Detroit has historically maintained two separate defined benefit plans, one for uniformed personnel and one for all other City employees. The City's existing pension plans are administered by the respective Retirement Systems, the Police & Fire Retirement System of the City of Detroit ("PFRS") and the General Retirement System of the City of Detroit ("GRS"). The bankruptcy claims related to PFRS claims are classified as Class 10, while the GRS claims are designated as Class 11 in the POA. These plans provided for a calculated amount of retirement income based on earnings and longevity of each individual employee. As typical with defined benefit plans, the benefits are fixed and are not dependent on investment returns or other outside factors.

Detroit's Plan, in an effort to mitigate the City's expanding legacy pension issues, proposes to fundamentally restructure the City's pension obligations for both its current retirees and its active employees, effective June 30, 2014. The Plan provides that, on the Effective Date, the City will assume the obligations related to already accrued benefits under the GRS and the PFRS pension plans *as those benefits will have been modified in the POA*. The POA pension proposal modifies

each plan under revised structures that impose reduced monthly pension amounts and/or reduced or eliminated COLA adjustments. The POA also proposes to restructure the accrual of pension benefits of active employees beginning on July 1, 2014, the parameters of which are detailed below.

City of Detroit Retirees Demographics

As of June 30, 2013, the Retirement Systems for the City of Detroit had approximately 32,247 members. The demographics of the each Retirement System are detailed below:

	PFRS		GRS		RS Total	
Active	3,272	26%	5,658	28%	8,930	28%
Retirees	9,054	73%	12,118	61%	21,172	65%
Other	<u>111</u>	1%	<u>2,214</u>	11%	<u>2,325</u>	7%
	12,437		19,990		32,427	

Of the City's estimated 21,172 retirees, roughly 7,200 (or 34%) are over the age of 75, with another 35% between the ages of 65 and 75. The average PFRS pension in FY2013 was \$30,607 as compared to the average FY2013 GRS pension of \$19,213.

Pension Funding Level

The accounting for defined benefit plans can be very complex. The calculations used to determine the appropriate funding levels required each year are dependent upon macro-economic factors, actuarial assumptions, and other variables that can be difficult to understand and can be manipulated to bias the required funding levels.⁴⁴

Historically, a number of different practices have contributed to a significant funding shortfall in the two pension plans. The Retirement Systems utilized unrealistic rate of return assumptions and managed the pension plans in accordance with questionable investment strategies that resulted in considerable underfunding of the respective Plans. The Retirement Systems assumed aggressive annual rates of return on investment (PFRS: 8.0%; GRS: 7.9%), allocated asset gains and losses over a seven-year period which masked potential funding shortfalls, and utilized renewing 29- (PFRS) and 30- (GRS) year amortization periods for funding the unfunded pension obligations.

The calculation of this funding shortfall, or the Unfunded Actuarial Accrued Liability (“UAAL”), is dependent upon the use of assumptions as noted above.

⁴⁴ Declaration of Charles M. Moore in Support of Detroit, Michigan’s Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 5

Based on the assumption methodologies used by the retirement systems previously, the UAAL was projected, at the end of FY2012, to have been approximately \$977 million.⁴⁵ At June 30, 2013, that UAAL estimate was \$1.5 billion as PFRS reported it was 89% funded with a UAAL of \$415 million. At that same time, GRS reported it was 70% funded with a UAAL of \$1.1 billion. Using what the City now believes are more accurate assumptions, the City's actuary - Milliman, Inc. - has estimated that the combined systems' UAAL, at June 30, 2013, was approximately \$3.5 billion.⁴⁶

In addition to issues involving the aggressiveness of the rate of return assumption used to determine funding levels, also contributing to the increase of the UAAL were a number of questionable activities engaged in by the retirement systems, which included:

- Utilizing GRS fund assets to pay the promised returns on the Annuity Savings Program which, upon members of GRS allocating 3%, 5% or 7% of their after-tax salaries into a discreet defined contribution plan, effectively guaranteed a minimum 7.9% annual investment return

⁴⁵ Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 5

⁴⁶ Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 7

- regardless of the actual investment performance of the pension plans' assets;
- Using actual market returns for crediting purposes rather than the guarantee, the City believes that over \$387 million of excess investment earnings were credited to Annuity Savings Funds from 2003-2013
 - GRS trustees, when the plan's actual returns were higher than the assumed rate of return, paid a portion of the positive variance between the actual investment return and the assumed rate of return in an additional pension check to already retired pensioners in what is commonly referred to as the "13th check" program
 - The City periodically deferred its required year-end PFRS contributions, and then borrowed to pay those deferrals with debt priced at a rate of 8%;
 - Retirement System officials have been accused and/or indicted of material fiduciary misconduct, allegedly draining the pension of necessary liquidity and contributing to the underfunding of the Retirement Systems.⁴⁷

Pension Treatment

The City's Plan of Adjustment proposes to "freeze" the accruing of pension benefits under the terms of the City's legacy pension plans and, effective June 30, 2014, institute restructured, distinct pension plans for the City's active employees. For the current employees, their future pensions will be a combination of that which was accrued under the legacy plan through June 30, 2014, and after that date, what will be accrued under the new revised plan as detailed below. For the City's retirees,

⁴⁷ Declaration of Charles M. Moore in Support of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code; Docket No. 13; Page 10

depending on whether they are members of PFRS or GRS, the POA proposes to modify their accrued benefits under the legacy pension plans via reductions in gross pensions, cost of living adjustments, or reductions in investment earnings in the Annuity Savings Program.

Active City Employees

The Plan of Adjustment proposes a “hybrid” pension plan for the City’s active employees for their accrued employment time after June 30, 2014. The adjusted pension plan – for both PFRS and GRS – endeavors to combine the features of a fixed contribution plan with the estimated investment performance of a fixed benefit plan. The City and its actuaries constructed this hybrid plan to generate accrued pension payments to its active employees upon retirement commensurate with a 6.75% estimated annual investment return.

For active PFRS employees, the updated pension formula will be equivalent to their Final Average Compensation (“FAC”) – defined as the average base compensation (excluding overtime, sick leave, longevity, etc. over the last ten consecutive years) times years of service times 2.0%. For example, a theoretical PFRS employee whose FAC was \$40,000 with 25 years of experience would accrue an annual pension of \$20,000 ($\$40,000 \times 25 \times 2.0\%$). This calculation represents

the defined benefit portion of the new hybrid plan. The defined contribution portion of the new plan incorporates an annual 12.25% contribution from the City of employees' base compensation and requires an employee contribution of 6%, if the employee was hired before July 1, 2014, or 8% if hired after that date. In addition, PFRS employees will be eligible for retirement at ages 50-52, depending on their rank, with twenty-five years of service.

The revised GRS pension plan for active employees is similar to the PFRS plan, albeit adjusted for Social Security (GRS pensioners are eligible for Social Security in contrast to PFRS pensioners). The updated pension formula will be equivalent to FAC over the last ten consecutive years times years of service times 1.5%. For example, a theoretical GRS employee whose FAC was \$40,000 with 30 years of experience would accrue an annual pension of \$18,000 ($\$40,000 \times 30 \times 1.5\%$). The City will contribute 5.75% of the employee's base compensation annually, while the employee will contribute 4%. In addition, GRS employees will be eligible for retirement at age 55 with thirty years of service.

Proposed POA Restructured Terms

	PFRS	GRS
Pension Formula	FAC x # of years x 2.0%	FAC x # of years x 1.5%
Investment Return	6.75%	6.75%
ER Contribution	11-12% of base compensation	5% of base compensation
EE Contribution	Hired before 7/1/14: 6%; after 7/1/14: 8%	4% of base compensation
Retirement Age	Age 50-52 with 25 years experience	Age 55 with 30 years experience
COLA Eligibility	0-1% compounded, variable	Variable after 4 years and 100% funded
Annuity Savings Fund	n/a	Interested credit at actual return (0-5%)
Theoretical Annual Pension (\$40k FAC with 25/30 years experience)	\$20,000 = \$40,000 x 25 x 2.0%	\$18,000 = \$40,000 x 30 x 1.5%

The fundamental amendments to the future pension plans lend themselves favorably to the POA's feasibility. Redefining base compensation as an average of the last ten years' pay as opposed to last three, eliminating non-base compensation such as overtime and sick leave from the calculation, reducing the estimated rate of return, and incorporating a defined employee contribution all contribute to the increased likelihood that the City can meet the requirements of the new pension plan. A concern remains, though, that embedded within the "hybrid" nature of this pension plan, is the concept that a fixed contribution will, *over time*, produce the required, fixed benefit. Pension plans with fixed contributions are generally just that -- defined contribution plans, not defined benefit plans. To the degree that the actual investment return underperforms the targeted levels or the employee population exhibits life expectancies in excess of the actuarial assumptions, the City has the potential to again be saddled with an underfunded pension plan.

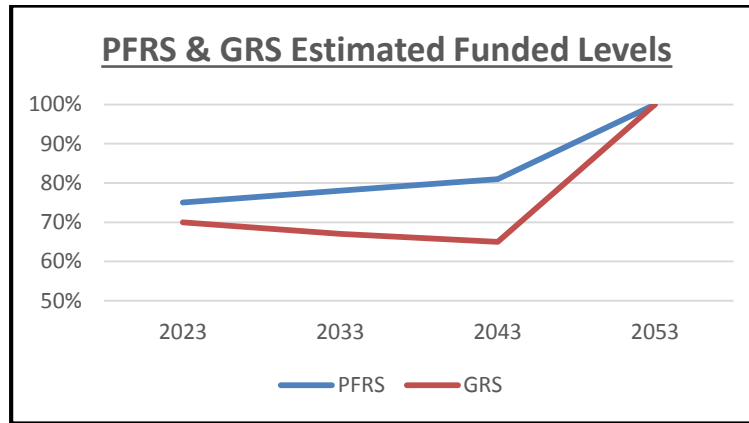
Current Retirees

The combined UAAL for both Retirement Systems was approximately \$3.5 billion as of June 30, 2013. The City's Plan of Adjustment, for the current retirees' pension plan, establishes targeted funding rates by the end of fiscal year 2023 for each Retirement System, specifically 75% for PFRS and 70% for GRS, based upon a heavily-negotiated 6.75% assumed investment rate of return. While I assume this investment rate of return as a "given" in all pension analyses to follow, further discussion with regards to the appropriateness of this assumed investment rate of return, and more particularly, its use as the assumed liability discount rate, is detailed below. These targeted funding levels, combined with the proposed benefit reductions for each pension plan, dictate the required cash contributions to the Retirement Systems during the period ending June 30, 2023. The POA proposes that the City will amortize the remaining UAAL for each Retirement System – as of June 30, 2023 – over the following thirty-year timeframe.

The following graph illustrates, per the City's actuary – Milliman, Inc. – the estimated funding levels for PFRS and GRS at ten-year intervals during the period FY2014-2053⁴⁸. Based on the City's actuarial tables, the POA projections assume

⁴⁸ Both PFRS and GRS plans are forecasted to initially have decreasing funding levels; PFRS is forecasted to decrease from 87% in FY2015 to 78% in 2023; GRS is estimated to decrease from 74% in FY2015 to 65% in FY2043

that the pension plans' funding levels significantly improve in the last ten years of this forty year period in question⁴⁹.



The POA assumed investment rate of return of 6.75% was a heavily negotiated component of the POA amongst the City, its retirees, the Retirement Systems, the Retiree Committee, and the labor unions. The POA stipulates that the board of trustees of the PFRS and GRS “must” maintain a 6.75% investment return assumption through the period ending June 30, 2023; thereafter, that rate is at the discretion of the Retirement Systems. While the new, proposed rate is more conservative than the historically-used 7.9% and 8.0% rates, current debate abounds as to whether a municipal pension plan, that is not 100% funded, should use any rate for its liability discount rate other than the government risk-free rate.

⁴⁹ Milliman, Inc. letter, dated May 7, 2014

The following table illustrates where the City's proposed 6.75% investment rate compares to other comparable municipal pension plan assumptions⁵⁰:

<u>Public Pensions - Assumed Investment Returns - Dec 2013</u>	
City of Detroit	6.75%
Connecticut Teachers	8.50%
Houston Firefighters	8.50%
Ohio Police & Fire	8.25%
Ohio PERS	8.00%
Michigan Municipal/SERS/Public Schools	8.00%
U.S. National Average	7.72%
CALPERS	7.50%
Indiana PERF/Teachers	6.75%
DC Police & Fire/Teachers	6.50%

Pension Funding

In an effort to partially alleviate the City of Detroit's liquidity concerns and to fund some portion of the proposed RRI's in the first ten years, the Plan of Adjustment incorporates dedicated external funding for the Retirement Systems aimed at reducing the respective UAALs, portions of which the receipt is predicated upon Classes 10 (PFRS) and 11 (GRS) voting to accept the Plan. The following analyses illustrate the POA's proposed funding sources for the respective Retirement Systems over the 2014-2053 timeframe encompassed in the POA's 40 Yr Plan.

Plan of Adjustment – Proposed PFRS Contributions – FY2014-2053

⁵⁰ NASRA Issue Brief: "Public Pension Plan Investment Return Assumptions"; April 2014

(\$ Millions)	2014 - 2023	2024 - 2033	2034 - 2043	2044 - 2053
City-specified Contributions				
State of Michigan	\$ 96	\$ -	\$ -	\$ -
Foundations (DIA Settlement)	\$ 165	\$ 201	\$ -	\$ -
Other/City GF	\$ -	\$ 416	\$ 465	\$ 311
Total	\$ 261	\$ 618	\$ 465	\$ 311

Plan of Adjustment – Proposed GRS Contributions – FY2014-2053

(\$ Millions)	2014 - 2023	2024 - 2033	2034 - 2043	2044 - 2053
City-specified Contributions				
DWSD	\$ 429	\$ -	\$ -	\$ -
UTGO	\$ 32	\$ -	\$ -	\$ -
State of Michigan	\$ 99	\$ -	\$ -	\$ -
DIA (DIA Settlement)	\$ 45	\$ 55	\$ -	\$ -
Other/City GF	\$ 115	\$ 575	\$ 474	\$ 318
Total	\$ 719	\$ 630	\$ 474	\$ 318

In order of magnitude, the City-specified contributions in the 2nd, 3rd, and 4th decades reflect the estimated 30-year amortization payments on the respective plans' UAALs at June 2023. The DWSD is expected to contribute to GRS roughly \$428 million from FY2015-2023, constituting DWSD's allocable share of the remaining GRS UAAL, after considering the pension modifications proposed in the POA. The State of Michigan has committed to contribute the present value of \$350 million, approximately \$194 million⁵¹, for the benefit of pensioners. The State's contribution, signed into law by Governor Snyder on June 20, 2014, requires the approval of Classes 10 and 11, requires support from the Retirement Systems,

⁵¹ The \$350 million contribution is discounted at the 6.75% rate.

cessation of all bankruptcy-related litigation, and the full commitment of other external financing sources dedicated to the pension plans.

In addition to the identified pension funding sources highlighted above, the POA assumes implementation of the DIA Settlement, in which the City, DIA, and certain charitable foundations agree to irrevocably transfer the DIA art collection to the DIA Corporation. The art will be held in perpetual charitable trust within Detroit's city limits, in exchange for future payments of \$366 million, pledged by the charitable foundations, and a commitment from the DIA Corporation to raise \$100 million. Both DIA Settlement commitments are designated to be paid into the pension plans over the next twenty years.

The following tables illustrate the proposed funding contributions into PFRS and GRS for the fiscal years 2014-2023:

Plan of Adjustment – Proposed PFRS Contributions – FY2014-2023

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
<u>City-specified Contributions</u>											
State	\$ -	\$ 96.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96.0
Foundations	\$ -	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 164.7
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ -	\$ 114.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 260.7

Plan of Adjustment – Proposed GRS Contributions – FY2014-2023

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
<u>City-specified Contributions</u>											
DWSD	\$ -	\$ 65.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 45.4	\$ 428.6
UTGO	\$ -	\$ 4.4	\$ 4.0	\$ 4.0	\$ 3.9	\$ 3.7	\$ 3.7	\$ 3.6	\$ 2.3	\$ 2.0	\$ 31.6
State	\$ -	\$ 98.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98.8
DIA	\$ -	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 5.0	\$ 45.0
Other/City GF	\$ -	\$ 14.6	\$ 22.5	\$ 22.5	\$ 22.5	\$ 22.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 2.5	\$ 114.6
Total	\$ -	\$ 188.2	\$ 76.9	\$ 76.9	\$ 76.8	\$ 76.6	\$ 56.6	\$ 56.5	\$ 55.2	\$ 54.9	\$ 718.6

Plan of Adjustment – PFRS (Class 10)

The POA proposes two alternative restructuring scenarios of the PFRS pension, with the respective depth of the assumed pension cuts being dependent on whether **both** Classes 10 and 11 approve the Plan of Adjustment.

PFRS – Scenario A

In the event that both Classes 10 and 11 vote for the POA, with an assumed investment return of 6.75% and a targeted funding rate of 75% in 2023, the POA proposes that PFRS pensioners will receive 100% of their current/accrued pension, but will have their lifetime Cost of Living Adjustments (“COLAs”) reduced by 55%. With COLAs estimated to represent approximately 18% of the total PFRS liabilities, the proposed 55% COLA elimination translates into a 9.9% reduction in estimated PFRS liabilities.

PFRS – Scenario B

If either Classes 10 or 11 vote against the POA, and maintaining the assumed investment return of 6.75% and a targeted funding rate of 75% in 2023, PFRS pensioners will still receive 100% of their current/accrued pension, but their lifetime COLAs will be completely eliminated.

Police and Fire Retirement Systems of the City of Detroit
Projection of Liabilities and Assets
Scenario A
Assuming 55% COLA Reduction, 75% Targeted Funded Status,
and 6.75% Investment Return⁵²

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
City-specified Contributions	\$ -	\$ 114.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 18.3	\$ 260.7
Market Value of Assets	\$ 3,071	\$ 3,096	\$ 3,024	\$ 2,946	\$ 2,863	\$ 2,775	\$ 2,681	\$ 2,579	\$ 2,470	\$ 2,354	
Actuarial Accrued Liability	\$ 3,624	\$ 3,573	\$ 3,521	\$ 3,464	\$ 3,404	\$ 3,340	\$ 3,271	\$ 3,198	\$ 3,118	\$ 3,035	
Unfunded Liability	\$ (553)	\$ (477)	\$ (497)	\$ (518)	\$ (541)	\$ (565)	\$ (590)	\$ (619)	\$ (648)	\$ (681)	
Funded Ratio - BOY	86.6%	85.9%	85.0%	84.1%	83.1%	82.0%	80.6%	79.2%	77.6%		
Expected FY Benefit Payments	\$ (285)	\$ (283)	\$ (284)	\$ (284)	\$ (283)	\$ (283)	\$ (284)	\$ (285)	\$ (285)	\$ (283)	\$ (2,554)
Expected FY Admin Expenses	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (8)	\$ (8)	\$ (8)	\$ (8)	\$ (66)
Expected FY Net Investment Return	\$ 201	\$ 200	\$ 195	\$ 190	\$ 184	\$ 178	\$ 172	\$ 165	\$ 157		\$ 1,642

⁵² Milliman, Inc. letter, dated April 23, 2014

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
<u>Market Value of Assets - Roll Forward</u>											
Market Value of Assets - BOY		\$ 3,071	\$ 3,094	\$ 3,023	\$ 2,945	\$ 2,862	\$ 2,775	\$ 2,681	\$ 2,579	\$ 2,469	\$ 3,071
City-specified Contributions		\$ 114	\$ 18	\$ 18	\$ 18	\$ 18	\$ 18	\$ 18	\$ 18	\$ 18	\$ 261
Expected FY Net Investment Return		\$ 201	\$ 200	\$ 195	\$ 190	\$ 184	\$ 178	\$ 172	\$ 165	\$ 157	\$ 1,642
Expected FY Benefit Payments		\$ (285)	\$ (283)	\$ (284)	\$ (284)	\$ (283)	\$ (283)	\$ (284)	\$ (285)	\$ (283)	\$ (2,554)
Expected FY Admin Expenses		\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (7)	\$ (8)	\$ (8)	\$ (8)	\$ (66)
Market Value of Assets - EOY	\$ 3,071	\$ 3,094	\$ 3,023	\$ 2,945	\$ 2,862	\$ 2,775	\$ 2,681	\$ 2,579	\$ 2,469	\$ 2,354	\$ 2,354
<u>Actuarial Accrued Liability - Roll Forward</u>											
Actuarial Accrued Liability - BOY		\$ 3,624	\$ 3,573	\$ 3,521	\$ 3,464	\$ 3,404	\$ 3,340	\$ 3,271	\$ 3,198	\$ 3,118	\$ 3,624
Expected FY Benefit Payments		\$ (285)	\$ (283)	\$ (284)	\$ (284)	\$ (283)	\$ (283)	\$ (284)	\$ (285)	\$ (283)	\$ (2,554)
Add'l Accrued Liability		\$ 234	\$ 231	\$ 227	\$ 224	\$ 219	\$ 214	\$ 211	\$ 205	\$ 200	\$ 1,965
Actuarial Accrued Liability - EOY	\$ 3,624	\$ 3,573	\$ 3,521	\$ 3,464	\$ 3,404	\$ 3,340	\$ 3,271	\$ 3,198	\$ 3,118	\$ 3,035	\$ 3,035

Plan of Adjustment – GRS (Class 11)

Similar to Class 10, the POA proposes two alternative restructuring scenarios of the GRS pension, with the respective depth of the assumed pension cuts being dependent on whether *both* Classes 10 and 11 approve the Plan of Adjustment.

GRS – Scenario A

In the event that both Classes 10 and 11 vote for the POA, with an assumed investment return of 6.75% and a targeted funding rate of 70% in 2023, GRS pensioners will receive 95.5% of their current/accrued pension, will have their lifetime COLAs eliminated, and pensions will be subjected to a maximum of a 15.5% recoupment of their Annuity Savings Fund excess return⁵³. The combined impact of these proposed changes represents an approximate 27% reduction in

⁵³ Not all GRS retirees will be subject to ASF recoupment; only those retirees who ASF annual return, for FY2004-2013, was greater than the plan assets' actual return up to a maximum recoupment of 15.5% of the pensioner's peak ASF balance

GRS's estimated liabilities comprised of 4.5% from reduced pensions, roughly 9% from the Annuity Savings Fund recoupment, and 14% from the eliminated COLAs.

GRS – Scenario B

If either Classes 10 or 11 vote against the POA, and maintaining the assumed investment return of 6.75% and a targeted funding rate of 70% in 2023, GRS pensioners will receive 73% of their current/accrued pension, will have their lifetime COLAs eliminated, and the ASF recoupment will vary from 0.01% to 100% of a retiree's pension, based upon the excess amount of the pension. The combined impact of these proposed changes represents an approximate 50% in GRS's estimated liabilities comprised of 27% from reduced pensions, roughly 9% from the Annuity Savings Fund recoupment, and 14% from the eliminated COLAs.

General Retirement Systems of the City of Detroit Projection of Liabilities and Assets Scenario A

Assuming 4.5% Benefit Reduction, 100% COLA Reduction, 70% Funded Status, Annuity Savings Fund Recoupment, and 6.75% Investment Return⁵⁴

⁵⁴ Milliman, Inc. letter, dated April 25, 2014

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
City-specified Contributions	\$ -	\$ 196.2	\$ 65.3	\$ 65.3	\$ 65.3	\$ 65.3	\$ 65.3	\$ 65.3	\$ 65.3	\$ 65.3	\$ 718.6
Market Value of Assets	\$ 2,027	\$ 2,106	\$ 2,057	\$ 2,005	\$ 1,951	\$ 1,893	\$ 1,831	\$ 1,764	\$ 1,695	\$ 1,622	
Actuarial Accrued Liability	\$ 2,921	\$ 2,866	\$ 2,809	\$ 2,751	\$ 2,688	\$ 2,622	\$ 2,552	\$ 2,477	\$ 2,399	\$ 2,317	
Unfunded Liability	\$ (894)	\$ (760)	\$ (752)	\$ (746)	\$ (737)	\$ (729)	\$ (721)	\$ (713)	\$ (704)	\$ (695)	
Funded Ratio	73.5%	73.2%	72.9%	72.6%	72.2%	71.7%	71.2%	70.7%	70.0%		
Expected FY Benefit Payments	\$ (243)	\$ (241)	\$ (239)	\$ (239)	\$ (239)	\$ (239)	\$ (238)	\$ (238)	\$ (237)	\$ (235)	\$ (2,149)
Expected FY Admin Expenses	\$ (9)	\$ (9)	\$ (10)	\$ (10)	\$ (10)	\$ (10)	\$ (10)	\$ (11)	\$ (11)	\$ (11)	\$ (91)
Expected FY Net Investment Return	\$ 135	\$ 136	\$ 133	\$ 129	\$ 125	\$ 122	\$ 117	\$ 113	\$ 108		\$ 1,118

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 Year Total
Market Value of Assets - Roll Forward											
Market Value of Assets - BOY	\$ 2,027	\$ 2,106	\$ 2,058	\$ 2,007	\$ 1,952	\$ 1,893	\$ 1,833	\$ 1,766	\$ 1,696	\$ 1,624	\$ 2,027
City-specified Contributions	\$ 196	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65	\$ 65	\$ 719
Expected FY Net Investment Return	\$ 135	\$ 136	\$ 133	\$ 129	\$ 125	\$ 122	\$ 117	\$ 113	\$ 108		\$ 1,118
Expected FY Benefit Payments	\$ (243)	\$ (241)	\$ (239)	\$ (239)	\$ (239)	\$ (239)	\$ (238)	\$ (238)	\$ (237)	\$ (235)	\$ (2,149)
Expected FY Admin Expenses	\$ (9)	\$ (9)	\$ (10)	\$ (10)	\$ (10)	\$ (10)	\$ (11)	\$ (11)	\$ (11)		\$ (91)
Market Value of Assets - EOY	\$ 2,027	\$ 2,106	\$ 2,058	\$ 2,007	\$ 1,952	\$ 1,893	\$ 1,833	\$ 1,766	\$ 1,696	\$ 1,624	\$ 1,624
Actuarial Accrued Liability - Roll Forward											
Actuarial Accrued Liability - BOY	\$ 2,921	\$ 2,866	\$ 2,809	\$ 2,751	\$ 2,688	\$ 2,622	\$ 2,552	\$ 2,477	\$ 2,399		\$ 2,921
Expected FY Benefit Payments	\$ (243)	\$ (241)	\$ (239)	\$ (239)	\$ (239)	\$ (239)	\$ (238)	\$ (238)	\$ (237)	\$ (235)	\$ (2,149)
Add'l Accrued Liability	\$ 188	\$ 184	\$ 181	\$ 176	\$ 173	\$ 168	\$ 163	\$ 159	\$ 153		\$ 1,545
Actuarial Accrued Liability - EOY	\$ 2,921	\$ 2,866	\$ 2,809	\$ 2,751	\$ 2,688	\$ 2,622	\$ 2,552	\$ 2,477	\$ 2,399	\$ 2,317	\$ 2,317

Pension Restoration

The Plan of Adjustment incorporates, for both PFRS and GRS, the potential for previously-reduced pension benefits to be restored if the funding levels of the respective Retirement Systems improve to agreed-upon restoration levels at designated timeframes, the fiscal years ending 2023, 2033, and 2043. These pension restoration payments are designed to be variable, in that, they are only distributed to

the pensioners if the investment performance of the pension plans is at least three percentage points above the targeted funding levels.

The pension restoration thresholds, for both PFRS and GRS, are perpetually three percentage points above each pension plan's targeted funding level throughout the FY2014-2053 time period. If the funding levels exceeds the plan's restoration targeted funding level, i.e. are more than 3 percentage points above the targeted funding level, monies will be allocated to a "restoration reserve account". Once the restoration reserve account equals at least 10% of the lifetime value of the previously-reduced COLA payments, restoration payments will commence in the following year. According to the POA, restoration payments for PFRS will be conditional until 2023, and until 2028 for GRS. If, as a result of the funds' assets subsequently underperforming the targeted investment levels, which would mean that the returns fall below the 3 percentage point threshold for restoration payments, COLA restoration payments are immediately suspended. Beginning in FY2023 for PFRS and FY2028 for GRS, to the degree the plans' funding levels are in excess of the restoration targeted levels, those specific restoration payments become fixed, or "guaranteed", going forward.

It should be clearly understood, in FY2023 (FY2028 for GRS), FY2033 and FY2043, the *maximum* funded level of the GRS and PFRS is the amount shown in the table below. As a result of the negotiations with the parties, the provisions of the

POA relative to the pension settlements ensure that the pension plans at these benchmark dates will never be funded above the restoration funding rate for either the PFRS or GRS plans. If the funding level is above this targeted amount at the benchmark dates, the excess will be swept to a permanent restoration fund such that the funding level will be reduced to the amount shown. In the event that the funding levels at these benchmark dates are below these levels, the City is responsible for this unfunded amount and must fund it in the future. Therefore, as the City considers the average rate of return, it must keep in mind it is “giving away” some of the upside, yet retaining all of the downside.

The following table summarizes both PFRS and GRS’s targeted and pension restoration funding levels for the 2014-2043 timeframe (pension restoration payments cease in 2043)⁵⁵.

	PFRS		GRS	
	Funding Target	Restoration Target	Funding Target	Restoration Target
2014-2023	75%	78%	70%	73%
2024-2033	81%	84%	70%	73%
2034-2043	84%	87%	70%	73%

Impact on Feasibility

⁵⁵ Multiple Milliman, Inc. Pension reports; multiple Phoenix discussions with Jones Day attorneys re: Pension plans

There is considerable debate regarding the selection of the discount rate for calculating liabilities in government sponsored defined benefit (DB) plans. At one end of the debate is the thought that the discount rate of liabilities should equal the expected return on pension assets; at the other end is the thought the liabilities have a very strong contractual and legal requirement and therefore represent a certainty of payment and therefore should be discounted at, or near, the risk free rate. This seemingly academic question has real world consequences when viewing Detroit's POA and its perceived feasibility.

The Nelson A. Rockefeller Institute of Government's recent analysis on this issues - The Blinken Report - dated January 2014, notes⁵⁶:

The problem begins with mismeasurement of liabilities and the cost of funding them securely, for financial reporting purposes. The proper way to value future cash flows such as pension benefit payments is with discount rates that reflect the risk of the payments. This is separate from the question of the rate pension funds will earn on their investments.

This bears repeating: The proper rate for valuing pension liabilities on financial statements is separate from the question of what pension funds will earn on their investments. Different rates may be appropriate for valuing liabilities than for assumed investment returns — and we recommend, later, that different rates be used. The major

⁵⁶ The Blinken Report- Strengthening the Security of Public Sector Defined Benefit Plans, dated January 2014. Donald J Boyd and Peter J Kiernan. *Expert's Note: In the preface of this Report special note is made of the contribution to the analysis and work by Dick Ravitch. Mr. Ravitch is Judge Rhodes' non-testifying consultant in this chapter 9.*

significance of valuing liabilities incorrectly is that it leads to inadequate funding policies, and encourages the mistaken belief that benefits can be greater, services can be greater, or taxes lower while still funding benefits securely. (Blinken Report Emphasis)

Because pensions are promises that should be kept, and have strong legal protections, they should be valued using discount rates that reflect the riskiness of expected benefit payments. Unfortunately, the longstanding practice for public pension plans in the United States, developed before modern financial theory, is to use the expected return on pension fund assets to value liabilities, even though there is no logical connection between how much is owed to workers and what assets will earn. This practice is not used by public pension plans in other countries, or by private plans in the United States, or by economists or financial analysts valuing other cash flows. Our nation's public pension plans stand virtually alone, and recent accounting rule changes by the Governmental Accounting Standards Board (GASB) have not addressed this properly. Rates that reflect the expected risk of benefit payments ordinarily are much lower than the rates public pension funds use to value liabilities, and as a result, public pension liabilities are underestimated by at least \$1-2 trillion, and the annual costs of funding them securely are underestimated by at least \$100-200 billion.

The City of Detroit, in its POA, has used a rate of 6.75% to discount the liabilities of the pension plans. This rate is lower than the historical rates that PFRS and GRS have previously used and lower than recent investment returns, although recent market returns are heavily impacted by the recovery from the Great Recession. It is also low relative to peers (see previous chart on comparison of Assumed Investment Returns of comparable public plans). In fact, there are few other major government sponsored plans that use a lower rate to discount the liabilities in their pension plans. On the surface, this appears to be a conservative

assumption. However, I am not convinced that the City appreciates the opportunity it has to provide stewardship in this area. Highlighting that the City's assumptions are low relative to history, a history that got them to this place, and low relative to their peers - peers who collectively may be underfunded by \$2 trillion or more, is not much consolation.⁵⁷

We believe that the selection of a discount rate has relevance as to the feasibility of the Detroit POA, in that, in the future without the benefit to change pension obligations, pension funding requirements become a de facto first priority on cash flows. This results in crowding out other cash flow priorities. The City must be continually be mindful that a root cause of the financial troubles it now experiences is the failure to properly address future pension obligations. Below we address two main concerns regarding the selection of the discount rate for valuing future liabilities in the Plan.

The investment return at 6.75% appears to be based on future investment returns. This rate clearly reflects a rate above the current risk free rate of return and therefore indicates a level of assumed volatility and risk. The argument for using a discount rate that is related to investment returns typically states that using a rate

⁵⁷ Blinken Executive Summary pg. vii.

that is higher than the risk free rate is acceptable due to the long “runway” of a municipal pension. The argument goes: a municipal entity differs from an individual in that, as an individual ages, they typically must moderate their investment behavior towards lower risk investments due to shortening time horizons and, therefore, often lock in losses in down markets. The argument continues: the long time horizon of a municipal pension plan allows it to avoid this phenomenon. Of course, pension plans are not able to defer plan payments during down markets, and therefore, in significant down markets, the loss of principal as a result of making payments to pensioners, without offsetting investment returns, can result in a plan that “locks in” losses. These “locked in” losses create underfunding.

Further, the current POA contemplates Pension Restoration provisions. These provisions essentially allow pension plan beneficiaries to have some opportunity for restoration of lost pension benefits. Post confirmation, until June 2023 for PFRS and June 2028 for GRS, if the pension plans exceed 78% for PFRS or 73% for GRS, despite still being underfunded nearly 22% and 27%, respectively, additional funds can be set aside into a pension restoration fund. The funding levels and the ability of beneficiaries to receive restoration benefits are limited to actuarial and investment return adjustments and not to additional city contributions. However, under this plan, the City can be underfunded in FY2043 and still be in the mode of restoring pension benefits to then existing retirees. Based on the settlement terms and the

assumptions made, there does not appear to be recognition that a pension plan, someday, will need to be 100% funded. The City appears to adopt an institutional philosophy of underfunding.

On top of the conceptual argument that funding targets should be set at no less than 100%, before additional commitments are made to increase benefits, a larger concern exists. The City's assumption of a 6.75% rate of return implicitly requires the City to accept risk and volatility. Volatility is, of course, a positive and a negative force. At times, the City should be expected to achieve returns above 6.75% and, at times, the City should expect returns below this level. Over the past 10 years, the Retirement Systems have seen significant variations in their investment returns both above and below the average return. Again, this is the argument for municipal pensions to use investment returns because over the long term, there should be smoothing. Because the City's defined benefit plans are essentially in runoff, they will inevitably experience declining asset levels. In this environment of declining assets and volatility, returns over time are not equally weighted.

Thus, order matters when returns are volatile. It is much better to receive high returns early and low returns later, even though both streams provide the same simple average growth rate. Examples of the impact of timing on returns in a given 10-year period are detailed in the Sensitivity section below. This is not a trivial

issue, even though it is quite technical. As pension funds mature and net outflows increase, asset values will be more volatile and more susceptible to the order in which returns occur. In an environment in which expected returns are low in the short term — as the current low-interest-rate, low-inflation environment may be — funds cannot simply balance low returns in the short term with high returns later; they will need much higher returns later because investible assets will be lower than they otherwise would have been.⁵⁸

As example from the Blinken report: *Blinken Report Footnote #96*

Consider a pension fund that has net outflows equal to 4.5 percent of assets, with benefits and contributions both growing 7 percent annually (roughly consistent with recent experience). If it earns 4 percent on investments for five years, followed by 12 percent for five years, its assets at the end of ten years will be nearly 13 percent lower than if the returns come in the opposite order, even though annual average return is 7.9 percent either way. $[(1.04^{10} \times 1.12^{10}) - 1 = (1.12^{10} \times 1.04^{10}) - 1 = 7.93\%$.] If the fund earns 4 percent for ten years followed by ten years of 12 percent, its assets after twenty years would be 90 percent less than if returns had come in the opposite order. These calculations assume no change in contributions to amortize asset shortfalls in the early years. Amortization would narrow the difference between the two sequences of returns.

⁵⁸ Blinken pg 25.

Further exacerbating this issue, the City is agreeing to give up part, or maybe all, of its upside investment returns by virtue of the pension restoration benefits, but it is retaining all of the downside risk. If the funds' assets participate in a bull market in the first ten years of the POA, and the pension plans move to a funded level of 88%, the City would provide significant restoration benefits. If this bull market was then followed by a five year bear market, all of the restoration benefits paid during the bull market would serve to exacerbate the unfunded level of the pension plans and the City could be responsible for considerable funding risk.

It appears that the combination of a need to continue to invest in assets with risk and volatility in order to achieve investment returns and the restoration benefit to the pensioners, even at a level of low plan funding, acts as a one sided collar. That is, the City gives away much of the upside in investment earnings, while retaining all of the downside investment risk.

Legality of POA's Proposed Pension Cuts

Numerous parties in this bankruptcy, namely employees, retirees, Retirement Systems, and certain labor unions, have argued that the City is not legally able to

impair accrued pension benefits as they are protected under Article IX, Section 24 of the Michigan State Constitution of 1963. These same groups were granted permission to appeal the Bankruptcy Court's eligibility ruling to the U.S. Court of Appeals for the Sixth Circuit. To the degree that these parties are successful in their appeal of the Bankruptcy Court's eligibility ruling, the City's chapter 9 could be dismissed or may be unable to effectuate reductions in accrued vested pension benefits.

Sensitivity Analysis

The Society of Actuaries issued a *Report of the Blue Ribbon Panel on Public Pension Funding* in February 2014. The Blue Ribbon Panel recommended stress tests measuring the effect of investment returns over a 20-year period that are three percentage points above and below those used in calculating standardized plan contributions⁵⁹. The panel believes that +/- 3% points represents "plausible stresses" based on its review of prior market returns⁶⁰.

⁵⁹ The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

⁶⁰ The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

In response to my request for a sensitivity analysis for the pension plans assuming various average rates of return for the FY2014-2023 period and the aforementioned scenarios of 1) a bear market 5-year period followed by a bull market 5-year period and 2) a bull market 5-year period followed by a bear market 5-year period, the City's actuary has analyzed the PFRS plan.

As illustrated below, if the PFRS plan averages a 6% rate of return (75 basis points lower than the assumed rate of return) over the nine years ending June 2023, the plan is forecasted to be only 70% funded in June 2023, resulting in an additional \$236 million of unfunded liability versus the POA projections. That unfunded variance expands to \$527 million if the PFRS plan averages a 5% rate of return during this time period. Finally, if PFRS is negatively impacted by a bear market/bull market cycle (as opposed to the inverse) with five years averaging 0% followed by five years averaging 10%, the pension plan would have \$342 million more in unfunded liabilities during the 10-year period in question.

PFRS Average Rate of Return Scenario Analysis⁶¹

Average Rates of Return July 2014 - June 2023	Estimated Funding Status June 2023	Estimated Projected Unfunded Liability June 2023	Estimated Projected Unfunded Liability Variance
3.00%	43%	\$ 1,717	\$ 1,036
5.00%	60%	\$ 1,208	\$ 527
6.00%	70%	\$ 917	\$ 236
6.75%	78%	\$ 681	\$ -
8.00%	92%	\$ 252	\$ (429)
0% - 1st 5 years; 10% - 2nd five years	53%	\$ 1,439	\$ 758
10% - 1st 5 years; 0% - 2nd five years	64%	\$ 1,097	\$ 416

We have requested sensitivity analysis for GRS consistent with the PFRS sensitivity analysis highlighted above. At the time of this Report's release, we have not been provided the GRS sensitivity analysis.

Recommendations on Reporting Requirements

The City of Detroit will be bound by numerous reporting requirements and financial oversight when it emerges from bankruptcy. Going forward, these intended protocols are designed to assist the City in managing its cash flow and liquidity relative to its POA commitments and its future budgets. In addition, it will be important for the City to report its financial condition to various constituencies on a regular basis.

⁶¹ Milliman, Inc. letter; dated July 9, 2014

Timely, accurate financial reporting relating to the City's pension plans will be an essential tool as the retirement systems manage the plans' assets and liabilities and make critical decisions regarding future estimated rates of returns and annual funding requirements. At the end of June 2012, the Governmental Accounting Standards Board ("GASB") issued standards intended to reform how state and local governments report the financial status of their pension funds and how they finance them. GASB 67 defines how government pension funds must report finances related to pension activities. GASB 68 pertains to state and local government reporting of activities associated with pension finances.⁶² Both GASB standards are effective in FY2015 and will enhance the City's financial disclosures relating to its pension plans.

As the asset features and credit quality of the pension plans' investments evolve over time, so, too, will the reporting corresponding to those investments. The City's pension plans should establish a baseline level of financial reporting that will be accurate and illustrative of the condition of the pension plans at any point in time. The Society of Actuaries' report recommended that actuarial funding reports should contain, for at least the previous ten years, information presenting the relationship of benefit payments, funding liabilities, and assets to payroll; the relationship

⁶² Governmental Accounting Standards Board

between the recommended contribution to payroll and to the sponsor's budget or revenue source; and the ratio of contributions made to the total recommended contribution.⁶³

Additionally, to understand current risk levels, three benchmarks should be disclosed:

- 1) The expected standard deviation of investment returns of the asset portfolio on the report date;
- 2) The plan liability and normal cost calculated at the risk-free rate, which estimates the investment risk being taken in the investment earnings assumption; and
- 3) A standardized plan contribution for assessing the aggregate risks to the adequacy of the recommended contribution.⁶⁴

Further, we recommend that the City disclose the gross liability and the UAAL by year on an undiscounted basis. This will allow third parties a better understanding of the changes in the liabilities from year to year.

⁶³ The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

⁶⁴ The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014

Section K - Human Capital and Leadership

Detroit's fifty year decline was caused by changing demographics, economics and the failure of elected officials to respond effectively. The downward spiral finally resulted in the City filing for Bankruptcy. Beyond the financial crises, the City has suffered from a deterioration of the efficiency and effectiveness of its City's workforce, as measured by the cost of service delivery versus the benefit the citizens received from those services.⁶⁵ Inadequate investment in human capital and poor leadership during the decline served to exacerbate the situation.

At its core, this chapter 9 is a fundamental change project. The City, through the guidance of its bankruptcy advisors, has fundamentally changed the City's balance sheet and reduced its long term obligations. The Emergency Manager has begun the even harder task of reshaping the operations of the City for the benefit of the taxpayers. The Mayor, and other elected and appointed officials, will need to continue this part of the change project. Human capital and leadership are two of

⁶⁵ Docket # 14, page 29 of 106, Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

the most important components to any successful restructuring⁶⁶. I believe the success, or failure, of Detroit's revitalization will hinge on the people employed by the City and the officials elected by the residents in the coming years. The skill level, on average, of City workers is low and outdated. Civil service requirements and historical collective bargaining agreements work against a merit or performance based employment culture in most municipalities and Detroit is no exception. Lack of even modest technology and up-to-date systems, as is the case with the City, ensure that employees will not perform at competitive levels to their peers in the private sector or even in municipalities that are efficient.

Impact on Feasibility

As I noted in my definition of feasibility, the second assessment prong of feasibility is "will and skill". Leadership, political and intestinal fortitude define "will" and talent and training equate to "skill".

For example, in order to arrest the downward trend of revenue, City employees must do a better job of collecting the taxes and fees that are currently due – that is skill. Better systems and more experienced management will be required

⁶⁶ I have written on this topic previously. See American Bankruptcy Journal, March 2014, "The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story"

to accomplish that goal. It was evident to me and my team that there are City employees who are knowledgeable, have good ideas about improving the operations and want to learn and advance. There are also employees who don't grasp that their job is to provide a service to the taxpayers versus the taxpayers owing them a job. This is a cultural malady that will have to change if Detroit is to be successful. Leadership that is focused on outcomes of service delivery and operating efficiency will be required, as will standards for personal and departmental performance.

Current Workforce Issues

The City employs more than 9,000 people and as a result of the RRI expects add to almost 700 net new positions. After accounting for attrition, this is a significant mobilization. Further, my discussions with the leaders in the City indicate a universal understanding that increasing the average talent base of the employees is a cornerstone for success of the Plan and the City. This topic was acknowledged at the outset of the case and continues to present challenges to the City's management team. Throughout my team's discussions with City leaders and department managers, the issue of human resources has been a regular topic of discussion.

Throughout our discussion in the finance and accounting functions it has been noted:

“Many qualified and experienced employees have left their jobs over concerns about the long term prospects of their positions; Difficulty in replacing employees with qualified personnel because salary structure is no longer reasonable and competitive. This weakness has been partially mitigated by hiring employees outside the official system using Professional Service Contracts (PSC’s), consultants and contractors.”

Exacerbating the problem of historic skill level are the changes made to compensation prior to, and as a result of, the bankruptcy. Prior to the Bankruptcy,

*“the City has also implemented a 10% reduction in the wages to majority of the workforce in the addition to furlough days of 10% to a majority of the non-uniform employees. Medical and prescription drug plan designs have been changed to reduce the costs associated with healthcare and increase the percentage of contributions from active employees.”*⁶⁷

The POA eliminates future accrual of the defined benefit retirement plan and replaces with what is arguably a less generous hybrid pension plan. The Plan eliminates certain OPEB benefits, specifically, post-retirement healthcare and replaces with what is arguably a less generous VEBA plan.

Beth Niblock, the City’s CIO, noted this concern in her Expert Report, *“(a)ttracting and maintaining a highly skilled workforce is a challenging task,*

⁶⁷ Declaration of Gaurav Malhotra in Support of the City of Detroit, Michigan’s Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code

particularly given the current and proposed compensation rates set forth in the Projections.”⁶⁸

There is little doubt that total compensation includes not only direct pay, but the benefits conferred to employees in the current time frame plus those that are expected to be conferred to the employee in the future. Individuals may possess differing views as to relative value of each category of pay; however, they do place some value on the deferred benefits.⁶⁹ With all of these changes to compensation, it is unclear what the impact will be on retention and recruitment. While there are studies to suggest, and perhaps some experience in Detroit to confirm, that the elimination of post-retirement healthcare may offset the impact of the pension changes as a retention tool. Current employees, when they retire, will not have the benefit of receiving healthcare benefits prior to Medicare eligibility. Therefore, employees may be more likely to stay in their positions with the City.

While the specific impact of the compensation changes on retention is unknown at this time, the impact on current employees and future employees may be different. For current City employees, the City has necessarily lowered the

⁶⁸ Report of Beth Niblock, Chief Information Officer for the City of Detroit-Expert report submitted in support of the City’s POA – page 15.

⁶⁹Are Public Pensions Keeping up with the Times? Richard W. Johnson, Mathew Chingos and Grover Whitehurst page 47.”

overall economic value of City employment and changed the perception of the long term value in having worked for the City, once an employee leaves or retires. For future employees the economic and long term value analysis will be based on the individual's perception of alternative employment opportunities. The City is currently working with the consulting firm of Fox Lawson to complete a compensation review so that the City may have more than anecdotal evidence as it proceeds with the recruitment and staffing. We understand that the results of this study are not available and therefore were not considered when the City developed the POA projections.

In addition, the City has acknowledged the issue of skill development by including in the RRI's significant funding for employee training. The City has included an annual employee training budget of \$2,000 for each non-uniformed employee through 2017 and \$1,500 per year thereafter. The total RRI allocation to training over a 10 year period is \$54.4 million. While no actual allocation of training dollars has been made, I believe that this is a strong indicator of the City's commitment to helping its current employees develop the skills they need to contribute to the success of the City and to maintain competitive skills within its employee base.

Throughout our meetings with City leaders and the advisors to the City, it has been noted that if compensation is a barrier to hiring the skilled talent required, the

City will likely adapt to this by hiring fewer but more skilled employees. I believe this approach can partially mitigate feasibility concerns regarding the City's ability to implement the Plan. Presently, the City is squeezed from both sides of the labor market: in order to do even the simplest routine task, the City has hired consultants yet maintains full time employees who should be able to manage those tasks but are not sufficiently trained to do so.

A significant challenge to acquiring the talent the City so desperately needs is the state of the Human Resources department. The Human Resources department is in need of an overhaul – recently, it has taken over six months to hire a new employee for an approved opening. As a result, department heads “work around” the department and find ways to recruit and hire employees more efficiently. The Mayor is well aware of the need for leadership in this key area.

Given the large number of recruits envisioned in the POA, a new approach to talent acquisition is needed. Consultants are in place to assess the skills needed to revamp key departments such as accounting and IT and the current leadership of those departments is experienced and capable. In fact, many of the Mayor's direct reports are experienced operational managers with successful employment histories. Overhauling the human resource function will be critical to a successful restructuring.

Leadership and Cultural Change

If the City is to counteract the vortex of underachievement that has defined Detroit, City leadership must make a long term, concerted effort to maintain the momentum needed to ensure effective City services. The Emergency Manager has made progress on the macro changes required and I believe the Mayor is developing a culture based on performance metrics and accountability and some of the *status quo* is going by the wayside.

I have confidence in Mayor Duggan. My opinion of feasibility is favorably influenced by my view of Mayor Duggan as a leader and an operational executive. I am encouraged by the manner in which he leads many of the City's departments given the real power is still held by the Emergency Manager. The Mayor has created simple metrics around which he can measure the performance of his department heads daily and/or weekly. This is a commendable workaround as the accounting and information systems, as noted elsewhere, are abysmal. While ultimately the City will need to address the core reporting system, the use of this simplistic metrics based approach is effective and understandable. When one is at the vortex of underachievement, having a few very simple and actionable goals can make a huge difference in the overall performance of the organizations. Having periodically attended the Mayor's Cabinet meetings, I know that if ambulance response times do

not decrease more rapidly, it will be evident to all and managers will be held accountable; this level of accountability can change the City for the better.

In the long term, the City's leadership is subject to the democratic process. There is clearly risk that future elected leaders stray from principals in the POA, but I am choosing to rely upon the combination of the electoral process and the oversight function implemented as part of the Grand Bargain legislation to keep future City leaders focused on strong stewardship.

Collective Bargaining Agreements

My team has not been privy to the negotiations between the City and its unions, or the resulting term sheets. The City's financial advisors have indicated that the economic issues addressed in the collective bargaining agreements ("CBAs") negotiated during the bankruptcy have been appropriately included in the POA projections. Based on discussions with long standing and former City officials and employees, I believe the more significant workforce issues are centered on the restrictive work rule provisions that have caused labor inefficiency, higher costs and inability to change outdated processes. I do not know if, or to what extent, any of these issues have been addressed in the recently negotiated CBAs. While I believe that the Emergency Manager's desire to negotiate 5 year contracts has been beneficial in mitigating the risk associated with adverse arbitration awards in the

future, I remain concerned that the City has missed an opportunity to make long term changes in its business processes and ability to manage through unforeseen events.

Section L - Blight

Detroit's Blight History

The City of Detroit, due to its shrinking population⁷⁰, depressed economy, and sagging property values, has experienced a metastasizing urban blight condition over the past several decades. Depending on which statistics are referenced, this City of approximately 139 square miles contains roughly 380,000 land parcels, of which 84,000 parcels (or 22%) have been identified as currently exhibiting blight characteristics or having indicators of future blight.⁷¹ These blighted parcels are geographically disbursed throughout the City, resulting in a ripple effect throughout most neighborhoods which further stretch the City's limited resources. An expanding blight crisis within Detroit is not just a land and property issue; rather, this epidemic has an exponential impact on the City's efforts with regards to public

⁷⁰From roughly 1.8 million residents in the 1950's to the current estimate of under 700,000

⁷¹ Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

safety, education, job growth, property tax revenue, and the City's efforts to attract new residents and businesses.

As recently as 2010, under Mayor Bing's administration, the City of Detroit began a coordinated effort to tackle the City's growing urban blight, with an initial goal of razing 10,000 vacant structures, roughly 13% of the vacant structures within the City, at that time. The City reached approximately 50% of its stated blight removal goal by 2013, but lacked the necessary funding to continue its targeted efforts. Demolition expense estimates for blighted residential structures have ranged between \$8,500 - \$12,000 per structure, depending on the size of the building and the degree of blight and neglect. In addition to the incremental costs, the City's protracted payments to the demolition contractors have resulted in reducing the number of contractors willing to provide demolition services.

Current Blight Initiatives

Mayor Duggan has made blight eradication a top priority and has attempted to coordinate Detroit's multiple public and private organizations in an effort to streamline funding and execute a strategy toward this critical effort. To that end, the Duggan administration has created the Department of Neighborhoods and

empowered the Detroit Land Bank Authority (“DLBA”) to aggressively move forward with multiple blight initiatives, including:

- Nuisance Abatement
 - Legal process of the City taking proactive legal remedies to seize abandoned properties within Detroit via the transfer of title to the DLBA (after the owner has been given the opportunity to bring the property “up to code”)
- Enhanced Intake Process
 - DLBA performs a cost-benefit analysis to assess the estimated costs to restore a property as compared the assumed demolition expense
- Disposition
 - DLBA has been initially successful in selling viable houses via open houses and online auctions

In addition to the City’s blight efforts, the Detroit Blight Removal Task Force (“Task Force”) recently released its Blight Removal Task Force Plan that articulated the Task Force’s efforts since it was founded in September 2013 and its view on the City’s blight efforts. The Task Force, in partnership with Data Driven Detroit and Michigan Nonprofit Association, created the Motor City Mapping (“MCM”) project that created a database cataloging the physical condition, tax status, and other pertinent information of all 380,000 parcels of land in Detroit. Also, these partners developed the Maximizing Community Impact (“MCI”) software tool designed to identify neighborhoods where targeted funding could stem blight expansion. Going forward, the Task Force’s mission – as it pertains to the City’s blight – is to focus on removing blighted structures and cleaning vacant parcels. The Task Force

estimates it will cost the City approximately \$850 million to execute the Task Force's demolition strategy⁷².

While the City's blight action plan and the Task Force's recommendation appear to be directionally aligned, the City's overall mission to stabilize neighborhoods may result in the DLBA pursuing deconstruction efforts in lieu of demolition, where it makes more sense. If the DLBA is able to resell or recycle some of the building components of the blighted structures and create valuable job opportunities in the process, that approach may make better fiscal sense than an across-the-board demolition strategy.

Plan of Adjustment – Blight Proposals

The City's POA includes a Blight Reinvestment Initiative that proposes to allocate \$420 million of funding towards blight removal over the course of the next nine years. The projected funds dedicated for blight removal have changed in each iteration of the City's POA projections and funding has been allocated to other POA obligations. The forecasted annual blight RRI is as follows:

⁷² Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014.

(\$ millions)

City of Detroit's POA Proposed Blight Expenditures

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Blight Expenditures	\$ 2	\$ 100	\$ 46	\$ 40	\$ 43	\$ 48	\$ 52	\$ 45	\$ 25	\$ 19	\$ 420

Funding for the intended blight removal efforts is forecasted to come from a variety of public and private sources, namely \$52 million from the federal government's allocation of its Hardest Hit fund, \$20 million from the Fire Escrow fund⁷³, various private sector contributions, with the balance coming from the City's annual cash flow. I have been told that the funding source for blight is flexible and is currently not necessarily dedicated only for this purpose. The Exit Financing contemplated appears to be the primary source for this funding.

Assuming the City can generate, or raise, the entire \$420 million dedicated for Blight removal over the next nine years, at an average demolition expense of \$11,000 per structure⁷⁴, the POA only allocates enough funding to remove about 50% of the structures designated by the Task Force blight removal.

⁷³It is not clear how the City intends to access these funds for its general blight initiative, as we understand the funds in escrow are designated for the demolition of particular properties destroyed by fire.

⁷⁴Phoenix assumed an average demolition expense of \$11,000 per structure, within the \$8,500-\$12,000 range proffered in the Disclosure Statement and in Phoenix's conversations with the DLBA.

I am not troubled by this apparent discrepancy between what the Task Force believes is required to eradicate blight and what the City is proposing. At some point during the next ten year period, assuming the City can dedicate sufficient funding to the blight initiative in the next few years, I believe that blight removal can become more self-sustaining by incorporating private capital or cost neutral solutions. If the City is initially successful in its blight remediation efforts, private owners and investors will see an economic opportunity to allocate private capital to take advantage of the revitalization efforts. It should be noted that, of the 79,000 structures (excluding lots) that are included as blighted or indicating blight, almost half have the lesser designation of ‘structures with indicators of future blight’.⁷⁵ It is likely that some portion of these structures might create realistic opportunity for private investors.⁷⁶

⁷⁵Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 15

⁷⁶Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224- the Blight task force estimates that 80-90% of the properties with blight indicators marked for ‘further analysis’ will eventually require demolition.

Blight Summary

Quantifying the near- and long-term economic impact of a successful City of Detroit blight removal initiative is difficult due to the absence of a calculable immediate return on the City's investment. The City's POA forecast, embedding the positive cash flow impact of the proposed RRIs, assumes increased income tax revenues of \$204 million and property tax revenues of \$110 million in the ten year period ending June 2023. While other RRIs impact the reasonableness of these incremental revenue assumptions, the relative impact of the blight removal initiative cannot be overstated.

In order to maximize the benefits of the blight removal program, the City must ensure that the funding is committed and supported in the longer term. For better or worse, blight has an emotional impact on the perception of what Detroit is and can be. I believe that the blight initiatives are immensely important to creating and sustaining a positive trajectory for the City's revitalization efforts. With substantive, long term commitments to address blight, I believe that many of the external factors, including home ownership and job creation required to abate the City's decline, can be addressed. Conversely, a start and stop approach, will likely result in ineffective investment and do little to reverse the spread of blight throughout Detroit. This trend would ultimately constrict the City's liquidity and make Detroit a less desirous

location for new residents and employers. To effectively address blight, the City needs to achieve economies of scale. The Task Force estimates that through economies of scale, the average cost per structure may be reduced by 17%. Put differently, with proper planning and investment, the City's blight investment can produce 17% greater impact for the same money.⁷⁷

Finally, continued coordination between the City, the State of Michigan, the Federal government, DLBA, and various private constituencies will be critical to the long-term success of the blight initiative. Perpetual updating of MCM, and effective utilization of the MCI software tool to identify the neighborhoods that will benefit the most from allocation of the limited blight funding, will be important to the success of this most critical City initiative.

⁷⁷ Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan May 2014. Page 224

Section M – Post Confirmation Oversight

As noted in my definition of feasibility, I believe that the determination of feasibility stretches far into the future, although to impact feasibility, issues that extend further into time must be more significant. Beyond the strictly financial issues, one of the most significant issues impacting feasibility involves post confirmation oversight and governance. Ultimately, the City of Detroit will be largely run by an elected mayor and an elected city council. There are obvious inherent limitations to understanding how the City will be run without knowing who will occupy these critical positions. In the end, the success of the POA will largely rest on the will of these elected officials and whether the will to make the fundamental change is inherited by future leaders.

While the democratic process necessarily creates this limitation, the State of Michigan has created a framework that will provide a level of consistent oversight for the City. If implemented correctly, this oversight will institute financial accountability in the City's operations and greatly improve the ability to address small problems before they become significant factors to long term viability.

Public Act 181 of 2014 establishes a 9 member commission, the Financial Review Commission (FRC), with fairly broad oversight power over the City.

Powers to be granted to the FRC include:

- Ensure the City is complying with the POA
- Review and approve the City's consensus revenue
- Require the City to submit 4 year financial plans
- Review, approve and modify proposed and amended operational budgets of the City
- Require relevant information from the City
- Review and approve requests by the City to issue debt
- Approve the appointment and termination of the City's CFO
- Approve collective bargaining agreements
- Approve all contracts that exceed \$750,000

I strongly believe that the appointment of the FRC improves the prospect of the City continuing to improve its fiscal health and therefore, provides some level of assurance to me regarding feasibility. I do note, that the FRC is populated by 9 non-compensated members. What we have learned about the City's finances, reporting and operations compels me to caution that the task the FRC is undertaking is not only challenging, but will require substantial time. Therefore, I believe that the positive prospects associated with the implementation of the FRC would be improved if the FRC hires permanent staff. My belief is that an executive director level professional with qualifications similar to a CFO would significantly improve the oversight functions associated with the FRC. I understand that the State has

appropriated funds for the operation of the FRC and these funds may in fact already be allocated to the above noted purpose.

As noted elsewhere in this Report, the pension plans are very complex. The accounting and actuarial assumptions are difficult to understand; it is even harder to understand how changes in assumptions may changes the City's future financial prospects. Therefore, I believe that it is important for the FRC to require annualized reporting from the City regarding each of the GRS and PFRS systems:

- The undiscounted liability of each of its pension plans.
- A sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel that provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan.

This reporting will allow outside observers to truly understand the nature of the City's continuing legacy pension obligations and insure that the City has foresight to deal with and significant deterioration of the pension UAAL during the time in which the City will not be making any direct cash payments to the pension funds, but the liability could nonetheless grow.

Public Act 182 of 2014 provides for the appointment of the City CFO, the identification of reporting requirements to the FRC and others, among other provisions. We do note that Public Act 181 and 182 requires the following:

That the City's financial plan include a general reserve fund for each fiscal year to cover potential reductions in revenues or increases in projected expenditures equal to not less than 5% of the project expenditures for the fiscal year.

I do not believe that the City's POA, as currently presented, complies with this requirement. The City has not identified how it intends to come into compliance with this provision.

As noted elsewhere in my Report, the City is unable to produce any reliable reporting in a timely manner. This will impact the FRC in their duties. At present, the City does not conduct monthly financial closes. That is, the City does not produce financial statements during the year. Further, it does not have a system to properly account for encumbrances. At present, the City relies on cash based information for what little information it does use to manage its operations. This cash based system is woefully inadequate for the purpose of running a major city long term. This will be compounded as the City begins to make large scale investments, such as blight remediation, which require the allocation of funding well in advance of the actual cash expenditure. The City has targeted an ERP system as one of its highest priorities in the RRI's. We fully support this initiative. However, it typically requires between 2-3 years, and sometimes even longer, for a full ERP implementation. During this time, the City will be required to continue to rely on ad hoc reporting. It is my observation that Mayor Duggan is using ad hoc operational

metrics to gain visibility. Given the lack of alternative options, I applaud this and believe that this can be a reasonable proxy for the immediate term, but it cannot replace the need for quick, integrated, systematic reporting over a longer period.

I have a significant concern regarding the City's intention with regard to the ad hoc reporting currently performed. It is my belief, the City is relying heavily on the cash team on site from E&Y. I understand that 3 full time E&Y personnel are allocated exclusively to cash management and reporting. I further understand that the POA does not have any direct funding allocated to retaining E&Y for this function. Further, I do not believe the City has recruited and trained personnel for this fairly complex and critical role. Failure to address this issue prior to confirmation could have a significant impact on the City's ability to manage cash and provide any level of reporting.

Section N - City of Detroit Unresolved Issues

In the event that the Plan of Adjustment is confirmed, the City of Detroit will continue to be challenged with operational, legal and financial issues critical to the City's long-term viability and its ability to execute the proposed restructuring initiatives, including:

- Bankruptcy Eligibility
- 2005-2006 Certificates of Participation
- Potential Swap litigation
- Impact of Collective Bargaining Agreements negotiations
- Potential City of Detroit Asset Sales
- Exit Financing
- Professional Fees post-bankruptcy

The immediate and long-term impacts to the City if it ultimately receives negative outcomes from any of these key issues cannot be quantified at this time. It is likely, though, that these (and possibly other) issues, both individually and collectively, will consume significant City resources, with regards to both human capital and financial reserves, in the period immediately following the conclusion of these chapter 9 proceedings.

Chapter 9 Eligibility

The central issue before the Court since the beginning of this municipal bankruptcy has been the ultimate determination as to whether the City of Detroit was eligible to be a debtor under chapter 9 of the Bankruptcy Code. At the petition date, the City filed its Statement of Qualifications and supporting memorandum demonstrating its compliance with the chapter 9 debtor requirements. Approximately 110 objections to the City's eligibility were filed, along with the Attorney General for the State of Michigan's argument that the Pension Clause of the Michigan Constitution prohibited the City from impairing its obligations to the City's pensioners.

After three months of multiple hearings and bench trial, on December 5, 2013, the Court entered the Eligibility Order stipulating that the City was eligible to be a debtor under chapter 9 and that its bankruptcy petition was filed in good faith. The objecting parties immediately requested an Order of Relief to the Sixth Circuit Court of Appeals. The Bankruptcy Court subsequently issued a memorandum recommending that the Sixth Circuit deny the appeal request entirely, and, if the Sixth Circuit did grant the appeal, that the appeal should not be expedited and therefore ruled upon prior to the City's Confirmation hearing. On February 21,

2014, the Sixth Circuit Court of Appeals granted the appeal petitions, but stated that the appeals would not be expedited.

At this juncture, the City's bankruptcy confirmation hearing and ultimate resolution is scheduled to occur prior to the Sixth Circuit's appellate hearing and decision. The potential impact of a reversal or modification of the Court's Eligibility Order is unknown at this time. It is conceivable that a reversal of the Bankruptcy Court's Eligibility ruling would completely negate the negotiated advances the City has made to date, specifically relating to employee compensation and pension/benefits reform.

Certificates of Participation

In 2005 and 2006, the City of Detroit, via its Retirement Systems and their related service corporations, issued multiple debt instruments known as certificates of participation ("COPs") totaling \$1.47 billion in an effort to reduce the pension plans' combined unfunded liability. At the petition date, three series of COPs were outstanding totaling \$1.473 billion:

(\$ million)	Amount	Interest
COP Series	Outstanding	Rate
2005-A	\$ 517.6	4.5-4.95%
2006-A	\$ 153.7	5.989%
2006-B	\$ 801.6	Floating
	\$ 1,472.9	

Material legal debate currently exists as to whether the City of Detroit was legally able to issue the COP debt instruments. The City is bound by both the Home Rule City Act, which details the level of indebtedness a city may incur, and the Municipal Finance Act, which prohibits a city from issuing a municipal security except in accordance with provisions of the Municipal Finance Act. The 2005-2006 COP debt instruments may have been in violation of either or both of these legal statutes.

On January 31, 2014, the City filed a complaint against the Service Corporations and the Funding Trusts – the non-profit entities established to effect the COP debt issuances – stating the 2005-2006 debt issuances were in violation of state law and that the related COP claims should be disallowed in the chapter 9 proceedings. Contradictory complaints were subsequently filed by the Funding Trusts, COP holders, and the COP insurers citing multiple affirmative defenses to the City’s complaint. At this time, hearings on the respective motions have been adjourned indefinitely. To the degree that such legal proceedings result in the COP

claims being fully or partially allowed, the City's POA could be materially weakened, and may result in incremental liquidity being required from future tax revenue to satisfy future obligations.

Potential Swap Litigation

As highlighted above, the City previously issued multiple COP debt issuances, the 2006-B series of which contained variable interest rates, thereby exposing the City to a rising interest rate environment. To hedge against this risk, the City entered into variable interest rate swap transactions in a notional amount of \$800 million, equivalent to the 2006-B COPs series. The swap contracts were insured by FGIC and Syncora to guarantee the quarterly payments defined in the swap agreements.

In 2009, due to the downgrade of the 2006-B series credit rating, the swap counterparties had the right to declare an early swap termination event which, at the time, would have required the City to make a lump sum payment of \$300-400 million to the swap counterparties. In an effort to avoid making such payment, the City pledged certain casino revenues and developer payments as collateral to the swap

counterparties. Approximately \$0.5 million per day is held in a lockbox until the City makes its \$4 million monthly swap payment.

The City's UTGO bond ratings were downgraded in 2012, exposing the City to a subsequent termination event and additional, costly termination payments due to the swap counterparties. In efforts to protect its interest in the collateralized Casino revenues, the City of Detroit entered into multiple mediations and litigation with both the swap counterparties and the swap insurers. The mediation with the swap counterparties resulted in reaching the Forbearance and Optional Termination Agreement that, after significant prodding from the Court, resulted in an agreement for a reduced Optional Termination Payment of \$85 million, payable when the City raises the required Exit Financing or in installments within 180 days of the case's Effective Date.

The Court entered a Swap Settlement order on April 15, 2014, which was subsequently appealed by multiple swap insurers contesting the swap counterparties ability to exercise any optional right of termination of the swap contracts without the insurers' written consent (Syncora Guarantee Inc. v. UBS AG, et al., Adv. Proc. No. 13-05395)⁷⁸. The litigation appears to essentially hinge on two primary issues: 1)

⁷⁸ Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

whether the swap insurers have the right to prevent the City from gaining access to its wagering tax revenues (City of Detroit, Michigan v. Syncora Guarantee Inc. et al., Adv. Proc. No. 13-04942)⁷⁹, and 2) whether the swap counterparties had the “standing” to enter into the FOTA without the swap insurers’ consent. On the first issue, the District Court – in a July 14, 2014 decision - ruled the swap insurers did not have the right to trap the City’s wagering tax revenues. That decision, as well as the ruling on the swap counterparties authority to execute the FOTA without the swap insurers’ consent, will thus be decided by the Sixth Circuit Court of Appeals. To the degree the insurers’ appeal is successful, any clarity of the City’s financial exposure to a potential swap termination payment would be lost and would possibly result in the future restricted access to some portion of the vital Casino revenues.

Collective Bargaining Agreements

The City of Detroit, throughout this bankruptcy process, has been negotiating to reach CBAs with its various labor unions representing the City employees. A total of 47 labor unions represent the City’s employees, all of which had their CBAs

⁷⁹ Quarterly Report with Respect to the Financial Condition of the City of Detroit; Office of the Emergency Manager; dated April 15, 2014.

expire as of June 30, 2013. The City's employees have been subject to City Employment Terms ("CETs") since the expiration of the respective CBAs. The City estimates that the CETs have resulted in more than \$200 million of annualized labor savings.

The City has negotiated many new CBAs with the goal of having them mirror the effective terms of the CETs. Phoenix has recently received the majority of negotiated CBAs, some of which have been fully approved by the State of Michigan, and some of which have been ratified but await the State's approval. Due to the timing of when Phoenix received these CBAs relative to our Report deadline, we have not fully reviewed each of these CBAs. To the degree that the final, agreed-upon terms of the respective CBAs contain aspects that are costlier to the City than the current CETs or contemplated in the projections, the City's liquidity could be negatively impacted. I am further concerned that the newly negotiated CBAs may not have sufficiently addressed the City's historic work rule issues.⁸⁰

⁸⁰ I have received assurance from City advisors that all agreed-upon CBAs are included in the projections.

Potential Asset Sales

Concurrent with the City's bankruptcy process, the City and its representatives have been in discussions with multiple constituencies in efforts to ascertain the optimal utilization of certain assets of the City of Detroit, whether that may be the outright sale of certain assets or the proposed leasing and/or partnership of non-core City assets.

The City has been engaged in longstanding discussions pertaining to the Detroit Water and Sewerage Department ("DWSD") with the surrounding counties with regards to the potential formation of a regional water authority. It is conceivable that a new authority could assume operating control of the majority of DWSD assets. To date, the City has not able to reach an agreement on any disposition of the DWSD assets and, as such, the discussions have migrated to bankruptcy-ordered mediation.

In addition to a possible disposition of the DWSD assets, the City has also inquired with interested parties about the possibility of a public-private partnership. Such partnership would entail the operation and management of the DWSD by qualified candidates who have demonstrated the financial and operational capabilities required to execute the DWSD's operations.

The City, via its Auto Parking System (“APS”), owns and manages seven parking garages containing 6,793 spaces and controls roughly 3,400 on-street metered parking spaces. At the request of the City, Miller Buckfire & Co. has been tasked with exploring the potential monetization of the City’s parking assets. At this time, no definitive decisions have been made by the City regarding these assets.

Lastly, options related to the City’s Coleman A. Young Airport are currently being considered, specifically a possible sale or lease transaction. As the airport is currently a cash drain on the City’s budget, the transfer of this asset could be beneficial to the City’s overall liquidity.

Exit Financing

The City of Detroit is seeking to enter into a \$300 million financing facility (“Exit Facility”), commensurate with the City’s anticipated emergence from bankruptcy. Per the POA, an estimated \$120 million of the Exit Facility will be used to refinance the City’s existing, previously-funded Quality of Life loan. The balance of the Exit Facility is intended to provide the City with liquidity and begin to fund the POA’s restructuring initiatives.

Miller Buckfire & Co. has been engaged to solicit respective parties' interest in the proposed \$300 million financing. To date, an Exit Financing introductory letter and an Exit Financing Indicative Term Sheet have been released to prospective lenders. Phoenix has no visibility into the receptiveness of the financing sources to the proposed debt offering. To the degree the City is not able to procure the anticipated Exit Financing in the amount or at a reasonable interest rate will materially impact the City's cash flow liquidity at its emergence from bankruptcy. As of the date of this Report, it appears that the assumed interest rate of 6% could be low for a high yield instrument like the proposed Exit Financing.

Professional Fees

According to the Plan, the City intends to establish and fund the Professional Fee Reserve, effectively allocating funds for the accrued expenses of professionals during the Chapter 9 bankruptcy. Those funds have been identified in the City's financial forecast.

The services provided by these professional advisors – both legal and financial – are likely to be required by the City after the bankruptcy is confirmed, whenever that occurs. In addition to various litigation matters referenced above, the City's

treasury function, as well as multiple, other financial and departmental functions, are largely performed by outside professionals at this time. This results in two primary concerns: first, many of the everyday functions performed by these outside professionals need to be transitioned to City employees, some of whom may not be hired yet; and, second, the interim, post-bankruptcy costs associated with these outside professionals is not in the City's budget at this time. While the City may be able to transition the Finance-related roles to its employees in the short or mid term, the various ongoing litigations will require a significant near-term financial commitment by the City to its retained legal counsel. The estimated, post-bankruptcy professional fees should be included in the City's near-term financial forecasts as they have the potential to be an immediate use of funds.

Section O - Other Risks and Opportunities

The POA and the projections that support the POA have been developed by the City to provide a reasonable forecast and represent a realistic picture of the City's General Fund.⁸¹ Based upon my team's analysis and numerous discussions with the City's advisors, I understand these projections were not developed either to: 1) account for every opportunity the City may have to generate cash flow in the future, or 2) account for every possible downside risk associated with a loss of revenue or an increase to expenses. While I do not disagree with the City's exclusion of certain items, I believe it appropriate to briefly summarize certain risks and opportunities not fully explored elsewhere in this Report.

⁸¹ Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 3, "These projected revenues and expenditures are reasonable forecasts and represent a realistic picture of the City's General Fund's ability to afford its expenditures and satisfy its obligations under the plan while maintaining an adequate level of municipal services."

Macro-Economic Issues

I believe the City's economic forecasts that informed the projections considered normalized economic conditions. I do not believe the City's projections accounted for any significant economic disruptions similar to those experienced recently during the Great Recession. Depending on the severity, longevity and the direct impact on urban centers, a long term and negative economic condition could cause serious concerns with meeting the Plan requirements.

State and Federal Funding

The POA relies on a number of external funding sources including the State of Michigan and to a lesser extent the Federal government. The State contributes through annual revenue sharing totaling almost \$2 billion over the first 10 years of the Plan as well as \$194 million as part of the Grand Bargain. Any additional support for Detroit at the State level is not committed and, in fact, revenue sharing could decrease over the life of the Plan.

There is obvious interest by the Mayor in identifying new and recurring support from the Federal government and other grant making bodies. The Plan projections have tended to apply conservative assumptions to the current grants and the availability of additional grants in the future, although it is clear that not all grants

assumed in the projections are committed at this time. Any increase in direct Federal support or grants will help to make the projections more achievable.

Impact of Private Parties

Third party funders have made significant commitments to the City. In fact, the Grand Bargain represents a huge commitment by these City benefactors and is already accounted for in the projections. However, there are a lot of small ways that third party benefactors may directly and indirectly impact the future of the City. The work of the Blight Task Force and the Future Cities Initiative are an example of this and cannot be measured in dollars. There would also be an improvement in the feasibility of the POA if a surge in private investment favorably impacts real estate values, employment and other factors that could contribute favorably to the initiatives in the Plan.

There is a downside to third party involvement as well. It can be fickle; a change in priorities or fortune could reduce the level of funding or delay it. The POA calls for \$366 million from charities and foundations plus an additional \$100 million to be raised by the DIA Corporation as part of the Grand Bargain which will be paid over a 20 year period. Failure of these foundations or benefactors to execute

on their commitments will result in further funding requirements from the City of Detroit.

Exit Financing and Access to Capital Markets

The POA contemplates the closing of an Exit Financing that will support the City's investment and liquidity needs. The projections assume Exit Financing will be a \$300 million facility with an 11 year term, funded on October 31, 2014, with interest only payments in the first 4 years and equal principal payments made in years 5-11. The interest rate is assumed to be 6%.⁸² We understand the City, through its advisors Miller Buckfire & Co., have commenced a process to solicit bids for this financing package. As of the date of this Report, the process is still underway. Mr. Buckfire believes that the Exit Financing process is likely to be successful on the terms outlined.⁸³ In the event that this financing is unavailable to the City on reasonable terms, is significantly lower in terms of facility amount, or is otherwise different than the assumptions in the POA, it is unlikely the City will have sufficient liquidity to operate and satisfy its obligations.

⁸² Report of Gaurav Malhotra in re City of Detroit, Michigan 13-53846, page 14.

⁸³ Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 page 3 Section 2.

In addition, I believe it is likely that the City will desire or require access to the capital markets in the future for potentially many different reasons. Mr. Buckfire believes the significant changes as a result of the POA and the State of Michigan's steps to remedy governance will allow the City to again access the capital markets.

⁸⁴ The City's inability to access the capital markets beyond the Exit Financing may limit the City's working capital flexibility and its ability to respond to future, necessary changes in delivery of essential services or capital investments.

DWSD

Detroit Water and Sewerage Department is a significant portion of the City's operations, however, it has very little impact on the General Fund. DWSD largely operates independently from other City business units. While DWSD's debt is impacted by the POA, the DWSD operations are not included in the Plan. DWSD does play a significant role in funding the City's pension obligations during the forecast period⁸⁵. In the event of a significant disruption to the DWSD operations, significant loss of customers impairing its financial prospects, or in the event that

⁸⁴ Expert Report of Kenneth Buckfire in Support of the City of Detroit's Plan of Adjustment in re City of Detroit, Michigan 13-53846 pages 3-5 Sections 3-6.

⁸⁵ DWSD is expected to contribute a total of \$428 million from FY2015-FY2023.

the DWSD contributions are not made according the POA, this could negatively impact on the outcome of the POA.

Sale of Assets

The POA largely excludes the sale of assets. While the sale of certain assets will have established treatment in the POA, there are significant asset sales that are not contemplated in the POA that could positively impact the projections. These assets might include parking related assets and other real estate. I have no visibility into the value of potential asset sales, but I believe they could produce cash which could improve the City's liquidity or revitalization prospects.

Tipping Point

The concept of the Tipping Point was made popular by author Malcolm Gladwell. He characterizes the tipping point as a moment of critical mass or boiling point where a group of small actions hit a threshold point and create an outsized impact.⁸⁶ A tipping point can be either positive or negative. Presently, the City has

⁸⁶ The Tipping Point by Malcolm Gladwell, 2000 published by Little Brown.

momentum and emotional optimism that it can build upon to energize its revitalization. There is no way to stochastically identify this impact and I do not believe the City has included this optimism in its projections. But there is no doubt that it is real.

I believe the City may be experiencing a tipping point that could be either positive or negative. There is a lot of press about support for the City from external parties making significant investment in Detroit. Press accounts suggest percolating interest in real estate and low availability of market rate apartments in small sections of the City. The City is addressing in small ways the quality of life issues, including street lights and blight.

It is beginning to feel like it could be an exciting time to be in Detroit. Tipping points also work in the opposite direction. If the momentum starts to slow in lots of small ways, or if the headlines change from investors buying, to investors selling, or if blight remediation reverses direction, the City could tip backwards. It is a critical point in time for the City of Detroit. My opinion is that it is more likely to tip forward than to tip backwards.

Section P - Conclusions

As noted in the Feasibility Section of this Report, I, along with the Phoenix team, have proffered the following Feasibility Standard for use in determining whether the City of Detroit's Plan of Adjustment is feasible:

'Is it likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default?'

We have further qualified the Standard into two components:

Quantitative

- Are the projections contained in the POA mathematically correct and materially reasonable?
- Are the assumptions that the City has used to develop its projections individually, and when taken as a group, reasonable?
- Is there an adequate contingency included in the projections?

Qualitative

- Does the City have the human resources, or can it likely recruit the human resources, required to meet its obligations under the POA?

- Does the City have the appropriate systems and procedures to monitor its financial performance and to provide early warning signs of variances in performance that might cause the City to fall short of the projections and be unable to meet its obligations under the POA?
- Are there appropriate structures to ensure the City's compliance with the POA and with reasonable government standards of operation?
- Will the City be able to reasonably deliver a minimum level of municipal services?
- Is the City's trajectory sustainable?

The Quantitative Issues

It is my opinion that, except where otherwise noted in my Report, the projections are generally mathematically correct and materially reasonable and therefore fall within the Feasibility Standard I have defined.

It is my opinion that, except where otherwise noted in my Report, the individual assumptions used to build the projections fall into a reasonable range and, that when taken as a group, these assumptions are also reasonable and fall within the Feasibility Standard.

While I have noted issues with the level of contingency in the projections, and feel this must be addressed both as a practical matter and in response to Public Acts 181 and 182 of 2014 controlling law, I believe that there are enough conservative assumptions in the projections to offset what I view as an aggressive assumption

concerning the level of contingencies, particularly in the early years. While I do not believe a 1% contingency is adequate, I believe that the POA projections, taken as a whole, fall within the range of reasonableness and within my definition of the Feasibility Standard.

The Qualitative Issues

As noted in this Report, I believe that human capital and the City's leadership ability are immensely important for the success of this Plan. Current human resources are lacking and senior leadership, while generally capable is not plentiful. To meet the projections in the POA, the City will need to recruit a significant number of employees with improved skill level and continue to change the culture of performance and accountability, I believe that the City has identified human capital as an issue and is addressing this both formally and informally. I am relying on Mayor Duggan, CFO John Hill, and the other capable executives I have met at the City to execute effectively on the human capital strategy.

As noted in this Report, the City's IT systems and procedures are broken and insufficient. I believe that the City's Mayor, CFO and CIO recognize the critical importance of effective technology and systems to the City's revitalization. Each

of these executives has convinced me that correcting the City's IT systems issues is a very high priority. I believe the City has recognized these issues, has identified the magnitude of funding required, and has begun to address both the process and technology issues necessary to bring the systems up to a reasonable standard over the next few years. I do not believe that there is a reasonable alternative that would produce a better, or quicker, result for the City.

I have noted my concern and my personal preference that the CFO report to the Financial Review Commission. I believe this would have provided a greater level of confidence in the City's performance by outsiders, including the capital markets. However, I believe that the existence of the Financial Review Commission provides a reasonable level of oversight to the City and that the CFO is eminently capable and appropriately professional and independent.

The POA and the projections that support the POA are designed to allow the City to continue to improve its level of service to the citizens of Detroit. I believe that the RRI's are reasonable and well considered. If executed, they will allow the City to deliver essential services. It is my opinion that the City is beginning to emerge from the "service delivery insolvency" referenced in Judge Rhodes' opinion concerning eligibility.

By most accounts, there is forward progress being made in the City. I believe the combined efforts of the Emergency Manager and Mayor are addressing service shortfalls. Further, I believe that the expanding efforts of the private sector are also indicative of a City with a positive trajectory. The POA lays out a plan to continue to improve the City services and I believe some of the work done by the Blight Task Force and the Future Cities Initiative will continue to add additional support to the City's positive trajectory.

After extensive interviews with parties knowledgeable about the City and the POA, the review of hundreds of relevant documents and models, and significant independent research and analysis by my team and me, it is my opinion that:

It is likely that the City of Detroit, after the confirmation of the Plan of Adjustment, will be able to sustainably provide basic municipal services to the citizens of Detroit and to meet the obligations contemplated in the Plan without the significant probability of a default.

As noted in Section C of this Report, I believe that the Feasibility Standard exist on a reasonable continuum, therefore, there are actions that can make the POA "more feasible." Throughout my Report I have noted issues that caused me some level of concern. These are issues that, if addressed, would make the POA 'more feasible.' Without any expectation that my concerns will influence the City or the Court, I will briefly summarize my larger concerns.

It should be noted that this opinion is rendered in an environment where there are many factors that will have influence on the City's conditions post confirmation that are unknown and unknowable. Throughout this Report, I have noted some of these factors, while other factors may not even be recognized today as potentially having an impact. My opinion is necessarily limited by these unknown factors. It should be recognized, that these factors, when known, could have a material impact on my view of feasibility.

Integrated Plan

As noted throughout this Report, there is not one controlling set of projections that will provide a financial road map to the City, its constituents and the Financial Review Commission. I recommend that the City immediately produce an integrated plan, which includes the expected initiatives, deferrals and other items, by department and fund. This will provide a longer term roadmap and assist the Mayor, the Financial Review Commission and other interested parties in understanding how the City is making progress towards the forecast detailed in the Plan. This business plan would also meet the requirements established in Public Acts 181 and 182 of 2014.

Oversight

As noted, I would have preferred an oversight model that included a CFO that did not report directly to the Mayor. This is not a statement about the quality of the current Mayor or CFO but rather my view that an oversight structure should be independent of who is the elected official. Given that the structure included in the Grand Bargain legislation does not include this independent CFO, I believe it is imperative that the Financial Review Commission have some permanent staff. My experience in other similar situations allows me to understand the complexity and sheer volume of information that must be analyzed and evaluated to properly execute the oversight function. The legislation provides for the Commission to hire professionals, which it will no doubt need to do, but it will be less costly and better for the long term effectiveness of the Commission, if it has at least a small permanent staff to support the part time, unpaid oversight board.

Pension Plan

One of the driving forces of the City financial problems was the City's, and the pension plans' trustees, failure to appropriately address the growing, unfunded pension liability. With finite resources, competing needs for dollars and the

willingness to push the problem to tomorrow, the pension UAAL continued to grow. This is not only a Detroit problem, but a general municipal finance problem throughout the United States. However, just because it is not *just* a Detroit problem does not mean that Detroit should not make some progress in addressing the macro problems. While the Plan makes progress in addressing this liability, the liability is not fixed. As noted in the Pension section of the Report, there is still risk that the liability could grow significantly. I recognize the difficulty and pain associated with the pension negotiations; and further, I understand the practical nature of the resulting settlements and the City's desire to manage its cash requirements related to pension contributions over the next 10 years. However, this does not fix the liability. The City cannot look away for 10 years and return in FY2023 to find the liability has again become an unmanageable burden. Therefore, I believe it is appropriate that the City be required to annually release the undiscounted liability of each of its pension plans. This will allow outside interested parties to independently evaluate the strength of the plans. Further, I believe that the City should provide a sensitivity analysis consistent with those recommended by the Society of Actuaries Blue Ribbon Panel on an annual basis and provide a discount of the liability based on +/- 3% from the investment return discount rate used in the plan. This level of reporting is not overly burdensome and will provide some level of sunshine into what is otherwise a very opaque process.

RRIs

The RRIs are one of the positive outcomes of the bankruptcy process. The RRIs provide the backbone of improved services to the citizens of Detroit. I believe that the development of a scorecard to track the implementation of the RRIs is an important tracking mechanism that will enable the City and the Financial Review Commission to understand the RRIs' implementation progress.

Respectfully submitted,

Dated: July 18, 2014

/s/ **Martha E. M. Kopacz**

Martha E.M. Kopacz

Exhibit 1

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Ms. Kopacz has over 25 years' experience assisting stakeholders in analyzing business operations and reorganization possibilities. She has led or participated in over 100 consulting and restructuring engagements representing companies, debtors, investors, creditor committees, banks and Chapter 11 Trustees. Ms. Kopacz has advised in a broad range of industries including not for profit and public sector, retail, leisure and entertainment, technology and professional services. She was one of the first financial advisors to apply turnaround principles to public sector and not for profit organizations. She has served as an Interim President, Chief Restructuring Officer, Chapter 11 Trustee, Collateral Trustee, and Examiner.

General Experience

Ms. Kopacz has prepared dozens of financial projections for clients and reviewed and critiqued dozens more, prepared by others. She has previously testified as to the appropriateness of forecasting methodology, the assumptions upon which forecasts are based and the likelihood of an organization to meet its forecast. She has a deep understanding of the importance of developing assumptions based upon a thorough analysis of relevant data, including historical and prospective information as well as third party, independent data. Ms. Kopacz understands the nuanced area of municipal budgeting. Because municipal entities lack a "standard" in budgeting, forecasting and accounting, great variations occur in the manner in which public entities report financial results and develop forecasts. As such, preparing and evaluating projections for municipalities requires strong business acumen and deep appreciation for the challenges inherent in the forecasting methodology and approach available to the entities.

Relevant Engagements

Ms. Kopacz advised the **Nassau County Interim Finance Authority (NIFA)**, a New York state control board, in their oversight role. In early 2011, NIFA imposed a control period for Nassau County based on a substantial budget deficit. Nassau County has experienced financial difficulties for over a decade despite an annual budget that approaches \$3 billion. The structural deficit for 2012 was estimated at \$300 million. Ms. Kopacz advised NIFA on the financial requirements underpinning the control period, the nature and size of the likely budget deficit and the reasonableness of the County's forecasts. In addition, Ms. Kopacz and her team conducted an in depth review of the business operations of the County and developed over \$300 million of cost reductions and operational improvements, which if implemented would restore Nassau County to a balanced budget in the next few years.

Serving in the capacity of the Chief Restructuring Officer and Interim President, Ms. Kopacz designed, led and executed the out-of-court restructuring of the **Legal Aid Society**, a 135 year old charity with approximately \$150 million in revenue serving the legal needs of the needy in New York City.

Accomplishments included: reducing a \$20 million operating deficit to better than break even; negotiating workforce reductions, compensation and benefit modifications with the UAW (lawyers' union) and the SEIU 1199 (social workers and paralegals' union) representing approximately three-fourths of the Society's 1400 employees; restructuring pension obligations; consolidating real estate, third party suppliers and infrastructure; and restructuring over \$65 million of balance sheet and long term obligations with dozens of creditors and stakeholders, all of which returned the organization to solvency. In addition, Ms. Kopacz led the Society's first ever Strategic Business Planning effort, managed day-to-day operations in conjunction with the Attorney-in-Chief, and received the Society's Pro Bono service awards for 2004 and 2005.

Ms. Kopacz represented **The Educational Resources Institute, Inc. (TERI)**, a large not for profit organization providing college access to underprivileged and underserved populations. TERI's for profit subsidiary was the largest guarantor of private student loans in the country when the securitization market for student loans evaporated. The extensively negotiated plan of reorganization preserved the not for profit mission and return collateral to the original lenders.

Ms. Kopacz worked extensively with the **Archdiocese of Boston** during some of its darkest days. In addition to preparing this socially significant non-profit institution for a contingent bankruptcy filing, she worked with stakeholders to develop a crisis communication plan, arranged interim financing and designed a claims facility to adjudicate tort claims.

Prior Experience

Prior to joining Phoenix Management, Ms. Kopacz founded Brant Point Advisors, a boutique advisory firm. Previously, Ms. Kopacz co-founded and co-lead the U.S. Corporate Advisory and Restructuring Services practice at Grant Thornton LLP and lead the group's public sector initiatives. Earlier in her career she was a Managing Director with Alvarez & Marsal, focused on public sector and not for profit clients, and a Principal with PricewaterhouseCoopers LLP until the practice was sold to FTI Consulting, as which time she was a Senior Managing Director.

Education & Certifications

Masters of Business Administration in Finance and Investments – Kelley School of Business – Indiana University

Bachelor of Science degree in Marketing – Kelley School of Business - Indiana University

Certified Management Accountant

Certified Insolvency and Restructuring Advisor

Affiliations

American College of Bankruptcy – Fellow – Twelfth Class

Turnaround Management Association

American Bankruptcy Institute

International Women's Insolvency and Restructuring Confederation,

Association of Insolvency and Restructuring Advisors

Institute of Management Accountants.

Civic Engagement

Boston 2024 Organizing Committee – Board Member
Legal Aid Society of New York – Board of Advisors
Kelley School of Business - Indiana University – Dean’s Council
Graduate School of Business, Sunkyunkwan University – Dean’s Council
Inly School – former Board of Trustees

Speaking Engagements and Publications

“Municipal Insolvency and Bankruptcy Part 1: Introduction, Overview and Key Issues” – Rhode Island Bar Association Annual Meeting, June 2012

“Municipal Bankruptcy” – Association of Insolvency and Restructuring Advisors Webinar, February 2012

“The Municipal Restructuring under Chapter 9: Legitimate Option or Scare Tactic?” – American Bankruptcy Institute Winter Leadership Conference, La Quinta, CA, December 2011

“Municipal Insolvencies: Is This the Next Wave?” – Turnaround Management Association Northeast Chapter, Boston, MA, November 2011

“Leadership and Political Will – Fixing States’ and Cities’ Fiscal Woes” – Heyman Center Series: America’s Fiscal Crisis – Depression, Recession or Recovery, Cardozo School of Law, New York, New York, October 2011

“Today’s Problems in Municipal Finance – Should Chapter 9 be Extended to States?” – Commercial Finance Association Advocacy Conference, Washington, DC, September 2011

“Turnaround “Apps” for the Public Sector” – Grant Thornton white paper, July 2011

“Chapter 9 Update” – American Bankruptcy Institute Northeast Conference, Newport, RI, July 2011

“Turnarounds in the Public Sector” – Kellogg Turnaround Management Conference, Chicago, IL, May 2011

“Too Big to Fail or Too Big to Bail (Out): a Discussion of the Pros and Cons of Bankruptcy for States” – Grant Thornton white paper, March 2011

“That was Then, This is Now: Financing Your Business in the Current Environment” – Proskauer Grant Thornton Seminar, New York, New York, October 2010

“Navigating Your Portfolio Through Turbulent Waters - Facing The Reality of Being Over Leveraged - And Practical Strategies for Restructuring in Zero Gravity” – Association for Corporate Growth Intergrowth Conference, Miami, May 2010

“Who Has \$\$ and What Are They Buying?” – Caribbean Insolvency Symposium, Grand Cayman, CI, February 2009

“Gaining Support from All of Your Constituencies” – American Bankruptcy Institute Northeast Conference, Brewster, MA, July 2008

Previous Dates – Guest Lecturer at Harvard Business School, Massachusetts Institute of Technology, Bentley College, Northeastern University, Pennsylvania State University and Indiana University concerning various corporate recovery topics. Panelist or Moderator at industry conferences hosted by Turnaround Management Association, American Bankruptcy Institute, Massachusetts Continuing Legal Education, National Credit Managers Association, Food Manufacturers Association, Barclays Bank among others.

Exhibit 2

Exhibit 2**# Document/Source**

- 1 All documents referenced in this report
- 2 All dockets located within KCC (Kurtzman Carson Consultants) data room in re: City of Detroit, Michigan
- 3 All documents located within the RR Donnelley Venue data room, located at <http://www.kccllc.net/detroit/document/list/3666>
- 4 All documents located within the data room constructed for Phoenix Management to catalog the Jones Day data productions, serviced by AlphaLit data room, located at www.go2edirect.com
- 5 All information located within the City of Detroit website, located <http://www.detroitmi.gov/>
- 6 All communications with City of Detroit personnel
- 7 All communications with Advisors of the City of Detroit
- 8 All communications with personnel responsible for the City's pension funds
- 9 All communications with the advisors of the City's pension funds
- 10 Emergency Manager Orders
- 11 Emergency Manager Announcement
- 12 Emergency Manager Reports
- 13 All documents released from the state of Michigan in regards to the City of Detroit Bankruptcy
- 14 American Bankruptcy Journal article titled "The Missing Link to Successful Company Turnarounds – Balance Sheet Management is Only Part of the Story"(March 2014)
- 15 Detroit Blight Removal Task Force publication titled "Every Neighborhood Has A Future... And it Doesn't Include Blight, Detroit Blight Removal Task Force Plan"(May 2014)
- 16 Daily Bankruptcy News article titled "\$4 Trillion In Hidden Muni Liabilities: SEC Commissioner Gallagher" (May 2014)
- 17 Journal of Corporate Renewal article titled "Chapter 9 May Be Tough to Swallow for Unions, Retirees" (June 2014)
- 18 The Society of Actuaries panel titled "Report of the Blue Ribbon Panel on Public Pension Plan Funding"(February 2014)
- 19 The Brookings Institution publication titled "Are Public Pensions Keeping Up With The Times?"(June 2013)
- 20 The Rockefeller Institute of Government publication titled "The Blinken Report: Strengthening the Security of Public Sector Defined Benefit Plans(January 2014)
- 21 BenefitsPro article titled "Public Pensions Hiding Trillions in Liabilities, SEC Commissioner Says"(June 2014)
- 22 Goodwin Proctor article titled "Visionary Schemes Need Not Apply: The Chapter 9 Plan Feasibility Requirement" (June 2013)
- 23 WSJ article titled "Detroit's Bankruptcy Revival " (April 2014)
- 24 Elizabeth Warren, U.S. Senator for Massachusetts press release titled "Rockefeller, Warren Introduce Legislation to Protect Employees and Retirees from Unfair Benefit Cuts"(June 2014)
- 25 Unionwatch Article titled "GASB Loopholes Created Illusions of Insolvency"(March 2013)
- 26 New York Times article titled "Panel Seeks Greater Disclosures on Pension Health"(February 2014)
- 27 The Detroit Free Press article titled "Judge Rhodes spars with Detroit fire union over bankruptcy objection"(July 2016)
- 28 Dow Jones Financial Information Services publication titled "Balancing Best Interests and Feasibility in Chapter 9"(March 2011)
- 29 The Detroit Free Press article titled "Monitor finds Detroit's 36th District Court much improved since May 2013"(May 2014)
- 30 The Detroit Free Press article titled "An energized Detroit Land Bank leads Duggan's blight effort"(May 2014)
- 31 Detroit News article titled "Clearing neighborhood blight to cost \$850M, Detroit group finds"(May 2014)
- 32 California Policy Center article titled "How New Rules from Moody's and GASB Affect the Financial Reporting of Pensions in Seven California Countries"(March 2013)
- 33 Journal of Public Economics article titled "Financial incentives and retirement: evidence from federal civil service workers"(March 2008)
- 34 Boston College Law Review article titled "Some Confirmed Chapter 11 Plans Fail. So What?" (Vol.47)(December 2005)
- 35 American Education Finance Association publication titled Teacher Pension Incentives, Retirement Behavior, and Potential for Reform in Arkansas"-2010
- 36 National Association of State Retirement Administrators publication titled "The 80-percent threshold: Its source as a healthy or minimum funding level for public pension plans)(January 2012)
- 37 C. Scott Pryor publication titled "Who Bears The Cost? The Necessity of Taxpayer Participation in Chapter 9" (June 2013)
- 38 C. Scott Pryor publication titled "Municipal Bankruptcy: When Doing Less Is Doing Best" (April 2014)
- 39 A Collier Monograph titled "Debt Adjustments for Municipalities Under Chapter 9 of the Bankruptcy Code"-2012
- 40 Bankruptcy of Mount Carbon Metropolitan Dist. Bankruptcy No. 91-20215 MSK(November 1999)
- 41 Bankruptcy of the City of Colorado Springs Spring Creek General Improvement District. Bankruptcy No. 94-15333.(January 1995)

Exhibit 2**# Document/Source**

42	Detroit Blight Removal Task Force Plan titled, "Every Neighborhood Has a Future . . . And It Doesn't Include Blight," (May 2014)
43	McKinsey & Company Publication titled "Delivering large-scale IT projects on time, on budget, and on value"(October 2012)
44	City of Detroit Triennial Executive Budget 2015-2017
45	Detroit Future City - Detroit Strategic Framework Plan(December 2012)
46	Report of Beth Niblock, Chief Information Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
47	Report of John Hill, Chief Financial Officer for the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846
48	Report of Kenneth Buckfire, of Miller Buckfire & Co; in re: City of Detroit, Michigan Case No. 13-53846
49	Report of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
50	Declaration of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(July 2913)
51	Report of Robert Cline, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
52	Report of Alan Perry, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
53	Report of Caroline Sallee, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846
54	Report of Suzanne Taranto, of Milliman; in re: City of Detroit, Michigan Case No. 13-53846
55	Report of Charles Moore, of Conway MacKenzie, Inc.; in re: City of Detroit, Michigan Case No. 13-53846
56	Third Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846.. Doc 4271(April 2014)
57	Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit; in re: City of Detroit, Michigan Case No. 13-53846. Doc 4391
58	Opinion Regarding Eligibility; in re: City of Detroit, Michigan Case No. 13-53846. Doc 1945. (December 2013)
59	Order to Show Cause Why Expert Witness Should Not Be Appointed; in re: City of Detroit, Michigan Case No. 13-53846. Doc 3170. (March 2014)
60	Declaration of Kevyn Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109 "C" of the Bankruptcy Code. Doc 11(July 2013)
61	City of Detroit: Proposal for Creditors. Prepared by Miller Buckfire & Co., LLC, Jones Day. (June 2013)
62	City of Detroit: Operational Restructuring Summary. Prepared by Office of the Emergency Manager. Conway MacKenzie, Inc. (November 2013)
63	Independent Auditors' Report on Internal Control. Prepared by KPMG LLP. (December 2012)
64	Quarterly Report of the Emergency Manager for the quarterly period of January 1, 2014 through March 31, 2014. (April 2014)
65	Letter from Robert Childree of AGA Financial Management Standards Board. Addressed to David Bean, Director of Research and Technical Activities of Governmental Accounting Standards Board (GASB). Comments on Pension Accounting and Financial Reporting. (July 2009)
66	Email from Mike Duggan of the City of Detroit. Plan of Adjustment Due Diligence. (May 13, 2014)
67	David Whitaker, Director of Legislative Policy Division Staff for the City of Detroit. 2013-2015 Budget Analysis.(May 2014)
68	Treasurers Report for 12/2011 Via: City of Detroit, Michigan Notice of Preliminary Financial Review Findings and Appointment of a Financial Review Team. Doc 11-3.(January 2012)
69	2012 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-4. (March 2012)
70	Treasury Report. Prepared by Andrew Dillon, Michigan State Treasurer. Doc 11-6(December 2012)
71	2013 Financial Review Team Report, prepared by the Detroit Financial Review Team. Doc 11-7.(February 2013)
72	Kevyn Orr, Emergency Manager for the City of Detroit. Recommendation Pursuant to Section 18(1) of PA 436. Doc 11-10(July 2013)
73	Governor Rick Snyder. Authorization to Commence Chapter 8 Bankruptcy Proceedings. Doc 11-11(July 2013)
74	City of Detroit: Alternative Plan of Adjustment Proposal. Prepared by Houlihan Lokey. (September 2013)
75	City of Detroit – Restructuring Plan; Mayor's Implementation Progress Report. (March 2013)
76	McKinsey Repot on City of Detroit. As posted on the City of Detroit website (May 2011)
77	Report prepared by: Sekely, C.(Conway MacKenzie, Inc.), Redmond, C.(Pierce Monroe & Assoc., LLC), Hutchings, C. (Municipal Parking Department). Titled "Revenue Enhancement Actions For Parking Violations Bureau"(December 2013)
78	
79	Kevyn Orr, Emergency Manager, City of Detroit. "Order No. 24: Order to Amend Chapter 55 of the 1984 Detroit City Code"(April 2014)
80	Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (
81	Order Appointing Expert Witness. Docket #4215
82	Notice Regarding Interviews of Expert Witness Applicants, Docket #4068

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Exhibit 2**# Document/Source**

- 83 Docket # 4216, Order Appointing Non-Testifying Consultant
- 84 Transcript of Hearing, April 18, 2014(April 18, 2014)
- 85 Milliman Letter Re: City of Detroit Active Health Plan Projections (November 2014)
- 86 NASRA Issue Brief: "Public Pension Plan Investment Return Assumptions"; April 2014; original source: U.S. Census Bureau
- 87 Milliman, Inc. letter(April 17, 2014)
- 88 Milliman, Inc. letter(April 20, 2014)
- 89 Milliman, Inc. letter(April 23, 2014)
- 90 Milliman, Inc. letter(April 25, 2014)
- 91 Milliman, Inc. letter(May 7, 2014)
- 92 Milliman, Inc. letter(July 2014)
- 93 Milliman, Inc. letter(November 2, 2013)
- 94 Milliman, Inc. letter(November 3, 2013)
- 95 Milliman, Inc. letter(July 9, 2014)
- 96 The Blinken Report- Strengthening the Security of Public Sector Defined Benefit Plans, dated January 2014. Donald J Boyd and Peter J Kiernan
- 97 The Society of Actuaries "Report of the Blue Ribbon Panel on Public Pension Plan Funding"; February 2014
- 98 Governmental Accounting Standards Board
- 99 Memorandum in Support of Statement of Qualifications Pursuant to Section 109 (c) of the Bankruptcy Code. Docket No 14(July 2013)
- 100 State of Michigan Enrolled House Bill No. 5566 (June 2014)
- 101 State of Michigan Enrolled House Bill No. 5567(June 2014)
- 102 State of Michigan Enrolled House Bill No. 5568(June 2014)
- 103 State of Michigan Enrolled House Bill No. 5569(June 2014)
- 104 State of Michigan Enrolled House Bill No. 5570(June 2014)
- 105 State of Michigan Enrolled House Bill No. 5573(June 2014)
- 106 State of Michigan Enrolled House Bill No. 5574(June 2014)
- 107 State of Michigan Enrolled House Bill No. 5575(June 2014)
- 108 State of Michigan Enrolled House Bill No. 5576(June 2014)
- 109 State of Michigan Enrolled House Bill No. 5600(June 2014)
- 110 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 9, 2013)
- 111 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(September 20, 2013)
- 112 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(December 11, 2013)
- 113 Deposition of Gaurav Malhorta, of Ernst & Young LLP; in re: City of Detroit, Michigan Case No. 13-53846(March 31, 2014)
- 114 Comprehensive Annual Financial Report, City of Detroit FYE June 30, 2012
- 115 City of Detroit, IT Optimization Discussion Document (August, 2013)
- 116 FAB Financial Subcommittee Meeting (January 2014)
- 117 ERP Needs Assessment: City of Detroit. Prepared by Plante Moran
- 118 ERP Cost Analysis
- 119 HR Technology Assessment, City of Detroit (December 2013)
- 120 Plan of Adjustment (May 2014)
- 121 Plan of Adjustment (July 2014)
- 122 PVB Revenue Enhancement White Paper (December 2013)
- 123 NASRA Issue Brief titled "Public Pension Plan Investment Return Assumptions" (April 2014)
- 124 "The Tipping Point" by Malcom Gladwell (2000)
- 125 Yale Law Journal Publication titled "The New Minimal Cities" (March 2013)

Exhibit 3

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Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
4/22/2014	Marti Kopacz	Bob Fishman - Shaw Fishman	Call	Discuss procedures
4/22/2014	Marti Kopacz	Neal Munshi - Reporter at Financial Times	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Tom Hals- Reporter at Reuters	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Chris Christoff- Reporter at Bloomberg	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Steve Buchanan - Reporter at NYTimes	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Seth Brumby - Reporter at Debt wire	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Pat Halligan- Reporter at The Deal	Call	Discuss Phoenix's role in Detroit Bankruptcy
4/22/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	In regards to the contact info for the City's Advisors and CFO
4/23/2014	Marti Kopacz	Judge Rosen	Meeting	Case Background
4/23/2014	Marti Kopacz	Peter Hammer	Call	In regards to the city history
4/23/2014	Marti Kopacz	Eugene Drinker	Call	Schedule tour
4/23/2014	Marti Kopacz	Stephen Lerner - Squire Sanders	Call	In regards to representation
4/24/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Email	Scheduling emails for meeting with public safety unions
4/25/2014	Marti Kopacz	Gregory Clash - Municipal Credit Consultants	Email	Offer of service on project team
4/25/2014	Marti Kopacz	Arthur O'Reilly - Honigman	Email	Scheduling Meeting with DIA
4/25/2014	Marti Kopacz	Robert Gordon - Clark Hill	Email	Scheduling with Pension System
4/28/2014	Marti Kopacz	Richard Levin - Cravath	Email	In regards to the DIA meeting
4/28/2014	Marti Kopacz	Heather Lennox - Jones Day	Email	In regards to work space
4/29/2014	Marti Kopacz, Bob Childree, Brian Gleason	Rodney Sizemore, Mark Diaz, Mark Young, Jeffery Pegg, Barbara Patek, Chris Legin, Elise Osbourne, Jim Moore, Donna Lato, Stacy Carin	Meeting	General discussion of Police and Fire Union issues, positions on the POA
4/29/2014	Marti Kopacz	Sharma Liveria - Sandler	Email	Schedule meeting
4/29/2014	Marti Kopacz	Robert Duffy - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	David Parker - Goldin & assoc.	Email	Schedule meeting
4/29/2014	Marti Kopacz	Albert Koch - Alix Partners	Email	Schedule meeting
4/29/2014	Marti Kopacz	Scott Davido - FTI	Email	Schedule meeting
4/29/2014	Marti Kopacz	Eunice Hayes - City of Detroit	Email	Schedule meeting
4/30/2014	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Eugene Drinker, Attorney and Jeri Stroupe, Office of Economic Development at Wayne State	Bus Tour	Tour of the city
4/30/2014	Marti Kopacz	Thomas Mayer - Kramer	Call	To get contact info for COPs and insurer contact
4/30/2014	Marti Kopacz	Vincent Marriott-Ballard Spahr	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Alfredo Perez - Weil	Email	Schedule Meeting
4/30/2014	Marti Kopacz	Ryan Bennett- Kirkland & Ellis	Email	Schedule Meeting
5/1/2014	Marti Kopacz, Bob Childree	Kevyn Orr , Sonya Mays, Stacy Fox - Emergency Manager	Meeting	Discuss City, Kevyn's role, long-term risks culture, behavior
5/1/2014	Marti Kopacz	Robert Gordon, JosephTurner, Ronald King Clark Hill, Michael VanOverbeke - VanOverbeke, Michaud	Meeting	Case Background
5/1/2014	Marti Kopacz	Scott Davido - FTI	Call	Scheduling
5/1/2014	Marti Kopacz	Alfredo Perez, client and colleagues - Weil Steve Spencer and John Popehn - Houlihan	Call	Case Background
5/2/2014	Marti Kopacz	Kenneth Buckfire - Miller Buckfire	Meeting	Case Background
5/2/2014	Marti Kopacz	Heather Lennox- Jones Day	Call/email	Protocol for meeting with City employees and advisors
5/2/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Jones Day request for JD attorney participation in City contacts
5/5/2014	Marti Kopacz	Michael Imber & team- Alvarez & Marsal	Call	Access to A&M insights and work product
5/5/2014	Marti Kopacz	Ryan Bennett, Steve Hackney- Kirkland & Ellis	Call	Case Background
5/7/2014	Marti Kopacz	Judge Rosen- US District Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Access to info; Counsel participation in interviews
5/7/2014	Marti Kopacz	Sheila Cockrel-Former Councilwoman	Meeting	Detroit financial and operational history
5/7/2014	Marti Kopacz, Brian Gleason	Dick Ravitch-Judge's Expert	Meeting	Introductory meeting
5/7/2014	Marti Kopacz	Gene Gargaro, Graham Beal, Annemarie Erickson-DIA	Meeting	Art disposition; grand bargain feasibility
5/7/2014	Marti Kopacz	Bob and Susie Bluestein, Gerald Rosen, Kevyn Orr, Mike Duggan, Richard Ravitch, Rip Rapson, Tom Lewand, Victoria Roberts, Gene Drinker, Gene Gargaro (plus spouses)- Various	Dinner Party	Introduction to Detroit
5/8/2014	Marti Kopacz, Brian Gleason	Mike Duggan-Mayor of Detroit	Meeting	POA Due Diligence
5/9/2014	Marti Kopacz	Dan Moss-Jones Day	Call	Access to info; Counsel participation in interviews
5/12/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Retention and hearing
5/12/2014	Marti Kopacz	Vince Marriott-Ballard Spahr	Meeting	Case Background
5/13/2014	Marti Kopacz, Bob Childree, Michael Gaul, Kevin Barr	Bob Kline - Ernst & Young	Call	Revenue assumptions
5/13/2014	Marti Kopacz, Bob Childree	Kurt Beckerman, Albert Koch - AlixPartners, Samuel Kohn - Chadbourne & Park LLP , Guy Neal , Sidley	Meeting	POA, projections, EM, Areas of opportunity Labor, DWSD, Discuss Alix Partners' work product and insights
5/13/2014	Marti Kopacz	David Prager, Jay Goldin-Goldin & Assoc.	Call	Case Background and their work product
5/13/2014	Marti Kopacz	Dan Moss-Jones Day	Call	Document control procedures for our requests to E&Y, CM, MB and City
5/13/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Expert witness procedures
5/13/2014	Marti Kopacz	Judge Rhodes-US Bankruptcy Court	Call	Supplemental Order

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Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
5/14/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr	Juan Santambrogio and Gaurav Malhotra - Ernst & Young	Call	10 year - 40 Year plan
5/14/2014	Marti Kopacz, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Stephen Lerner and Scott King - Squire Sanders	Call	Instructions re: document control; access to E&Y working model
5/14/2014	Marti Kopacz, Brian Gleason	Mike Duggan & staff-City of Detroit	Meeting	Attend Cabinet meeting
5/14/2014	Marti Kopacz, Brian Gleason	Rip Rapson, Laura Trudeau-Kresge Foundation	Meeting	Detroit Future Cities, Grand Bargain due diligence
5/15/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Call	Engagement Update
5/19/2014	Marti Kopacz	James Craig and Lesley Warmuth -Chief of Police and Pepper Hamilton	Meeting	Background interview re: Police Department
5/19/2014	Marti Kopacz	Richard Ravitch-Judge's Expert	Meeting	Pensions
5/20/2014	Marti Kopacz	Dan Dirks and team-DDOT Director	Meeting	Background interview re: Transportation Department
5/20/2014	Marti Kopacz	Stacy Fox-Deputy EM	Meeting	Information Requests Outstanding
5/20/2014	Marti Kopacz	Chuck Moore and Glenn Kushiner-Conway Mackenzie	Meeting	Pensions
5/20/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding
5/21/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan and Cabinet-City of Detroit	Meeting	General POA discussion
5/22/2014	Marti Kopacz, Brian Gleason	Stephen Lerner- Squire Sanders	Call	Information Requests Outstanding; Letter to Judge
5/22/2014	Marti Kopacz	Gaurav Malhotra -Ernst & Young	Call	Returning my emails re: Information Request Outstanding and letter to the Judge
5/23/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Follow up on his conversations with Jones Day re: info requests
5/27/2014	Marti Kopacz	Stephen Lerner- Squire Sanders	Call	Prep for hearing on Wednesday
5/28/2014	Marti Kopacz, Brian Gleason	Richard Ravitch-Judge's Expert	Meeting	Report development discussion
5/29/2014	Marti Kopacz, Brian Gleason, Kevin Barr	Mike Imber, Nancy Zielke, Bill Roberti - Alvarez & Marsal, Marianna Marysheva - Martinez, Joe Nichols, David Lawrence - FTI Consulting, Ryan Bennett, Noah Ornstein - Kirkland & Ellis, Jennifer Rothschild - Rothschild, Steven Spencer, John Popehn, Michael Lin, John Pepehn, Daniel Mn - Houlihan Lokey, Alfredo Perez, Kelly DiBlasi, Dana Kaufman - Weil	Meeting	Review other financial advisors' inquiries and learnings
5/29/2014	Marti Kopacz	Erica Ward-Land Bank Authority	Call	Blight
5/30/2014	Marti Kopacz	Melissa Smiley-City of Detroit	Call	Blight
6/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Judge Rhodes, Jones Day, and Squire Sanders	Call	Bankruptcy discovery transmission issues
6/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Stephen Lerner - Squire Sanders	Call	Bankruptcy discovery transmission issues
6/3/2014	Marti Kopacz	Richard Ravitch - Judge's Expert	Call	Catch up on case developments
6/3/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Update on document requests
6/3/2014	Marti Kopacz	Erica Ward - Detroit Land Bank Authority	Call	Blight
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Kevin Hand & Glenn Kushiner - Conway Mackenzie, Gaurav Malhotra, Juan Santambrogia & Dan Jerneycic - Ernst & Young, Melissa Smiley - City of Detroit, & Jones Day	Meeting	10 yr and 40 yr projections and reinvestment initiatives
6/3/2014	Marti Kopacz	Barbara Patek - Ermann Teicher	Call	Schedule meeting with firefighters and police unions
6/3/2014	Marti Kopacz	Chris Leggio - Counsel to Firefighters	Call	Schedule meeting with firefighters
6/3/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler	Email	Schedule meeting with AFSCME
6/3/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Jones Day, E&Y, CM	Call	Open Information Request list
6/4/2014	Marti Kopacz, Brian Gleason	John Hill - City of Detroit/EM	Meeting	Follow up on conversation from Mayor's Cabinet meeting
6/5/2014	Marti Kopacz, Brian Gleason	Mary Martin - City of Detroit	Meeting	Discuss Lean initiatives
6/5/2014	Marti Kopacz, Brian Gleason	Gaurav Malhotra - Ernst & Young, Chuck Moore - Conway Mackenzie	Meeting	POA Issues re: Feasibility
6/5/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Representatives of Detroit Land Bank Authority, CM, and Sonya Mays	Meeting	Blight remediation
6/5/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Meeting	Reconciliation of POA and Triennial Budget
6/6/2014	Marti Kopacz	Mayor Duggan, Melissa Smiley, Trish Stein, Tom Lewand - City of Detroit, Michelle - Consultant to Planning and Development Department	Meeting	Budget review meeting for planning department and economic development
6/6/2014	Marti Kopacz	Mike Imber - Alvarez & Marsal	Call	Inquired about report deadline extension
6/6/2014	Marti Kopacz	Chris Gannon - Conway Mackenzie	Meeting	BSEED restructuring initiatives
6/7/2014	Marti Kopacz	Mayor Duggan, Gary Brown, Melissa Smiley, Pam Scales - City of Detroit, Dan Dirks and team - DDOT - City of Detroit, Beth Niblock - ITS - City of Detroit, Ron Brundidge and team - DPW - City of Detroit, Beau Taylor and team - DLP - City of Detroit, Norman White and team - Parking - City of Detroit	Meeting	Budget reviews and POA reconciliation
6/9/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Scheduling status
6/9/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Judge Rhodes, Jones Day, E&Y, CM, and Squire Sanders	Call	Bankruptcy discovery transmission issues

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Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
6/10/2014	Marti Kopacz	Mayor Duggan, Melissa Smiley, Pam Scales, Law Department team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
6/10/2014	Marti Kopacz	Brenda Jones, Stephen Grady - City Council	Meeting	Plan of Adjustment
6/11/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Chief Craig and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review
6/11/2014	Marti Kopacz, Brian Gleason	Judge Rosen - US District Court, Mediators - Various, Jones Day, E&Y, CM - Advisors to the City, Richard Ravitch - Judge Rhodes' Consultant, Stephen Lerner - Squire Patton Boggs (via phone)	Meeting	Feasibility for the POA
6/11/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Meeting	Departmental meetings - DPD and DFD
6/12/2014	Marti Kopacz	Mark Diaz and team - DPOA, Barbara Patek - Counsel to DPOA, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Police Department
6/12/2014	Marti Kopacz, Brian Gleason	Kevyn Orr - Emergency Manager, Stacy Fox - Office of the EM, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Status of Assignment
6/12/2014	Marti Kopacz	John Hill - City of Detroit, Representatives of E&Y and CM, Leslie Warmuth - Pepper Hamilton, Richard Ravitch - Judge Rhodes' Consultant	Meeting	Review Finance, Accounting and IT issues
6/14/2014	Marti Kopacz	Heather Lennox - Jones Day, Gaurav Malhotra - Ernst & Young	Call	New POA date and projections update
6/14/2014	Marti Kopacz	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs	Call	Status on Report completion
6/16/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Work on Report sections - Pensions and Post Confirmation Issues
6/17/2014	Marti Kopacz	Sharon Levine - Lowenstein Sandler, Stephen Kreiser - AFSCME, Richard Ravitch - Judge Rhodes' consultant	Meeting	Union issues
6/17/2014	Marti Kopacz, Brian Gleason	Kenneth Buckfire, Jim Doak and team - Miller Buckfire	Meeting	Update on Asset Dispositions and Exit Financing
6/18/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs, Geoff Stewart and others - Jones Day	Call/email	Document production; "Big Issues" Meeting; projections v.11
6/19/2014	Marti Kopacz, Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	John Naglick, Glenn Kushiner, Dan Jerneyic, E&Y, Rick Drum, Accounting, Renee Shorts, budgets	Call	Round table conference call to discuss state of the monthly reporting that the City is generating, and ability to do post emergence reporting against budget. Post call with Bob Childree
6/19/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr, Stephen Lerner	Juan Santambrogio and Gaurav Malhotra - Ernst & Young, Chuck Moore and Glenn Kushiner - Conway Mackenzie, Jones Day Team	Meeting	"Big Issues" Meeting and feasibility assessment
6/19/2014	Marti Kopacz	Noah Ornstein - Kirkland & Ellis	Call	Inquiry re: confirmation issues for creditors
6/20/2014	Marti Kopacz, Brian Gleason	Melissa Smiley - City of Detroit	Call	New projections and impact on Mayor's Budget Reviews
6/24/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Brad Dick and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review Meeting for GSD
6/24/2014	Marti Kopacz	Mike Imber - Alvarez & Marsal	Call	Inquiry re: contingency provisions in HB 5567
6/24/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Discuss financial requirements in Grand Bargain legislation
6/25/2014	Marti Kopacz	Melissa Smiley - City of Detroit, Dan Jerneyic - Ernst & Young	Call	Utility cost estimates in POA projections
6/25/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs	Call	Information Requests
6/26/2014	Marti Kopacz, Brian Gleason	Prof. Scott Pryor - Regent University	Call	Ch. 9 feasibility article
6/27/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Future utility costs
6/30/2014	Marti Kopacz	Mayor, Melissa Smiley, Pam Scales, Dan Dirks and team - City of Detroit, Representatives of E&Y and CM	Meeting	Budget Review for DDOT
7/1/2014	Marti Kopacz, Michael Gaul, Kevin Barr	Daniel Jerneyic - Ernst & Young, Chris Gannon - Conway Mackenzie	Call	40 year revised draft projections discussion
7/2/2014	Marti Kopacz, Michael Gaul	Melissa Smiley - City of Detroit	Call	New Projections Pending
7/2/2014	Marti Kopacz, Michael Gaul, Brian Gleason	Mayor Duggan & Staff	Call	Departmental meeting - DFD
7/3/2014	Marti Kopacz	Mayor Cabinet Members - City of Detroit	Meeting	Mayor's weekly status meeting
7/9/2014	Marti Kopacz, Brian Gleason	Richard Ravitch - Judge Rhodes' Consultant, Peter Kiernan - Schiff Hardin	Meeting	Revised projections and impact on feasibility
7/9/2014	Marti Kopacz	Steven Hackney - Kirkland & Ellis	Call	District Court decision on wagering revenues
7/10/2014	Marti Kopacz	Stephen Lerner - Squire Patton Boggs, Geoff Stewart - Jones Day	Call/email	Outstanding information requests
7/10/2014	Marti Kopacz	Heather Lennox - Jones Day	Call	DWSD
7/14/2014	Marti Kopacz, Brian Gleason	Judge Rhodes - US Bankruptcy Court, Stephen Lerner - Squire Patton Boggs, Geoff Stewart - Jones Day	Call	Status call re: scheduling and report due date
7/16/2014	Marti Kopacz, Michael Gaul, Brian Gleason, Kevin Barr	Richard Ravitch - Judge Rhodes' Consultant	Meeting	Report development discussion
7/17/2014	Marti Kopacz	Stacy Fox-Deputy EM	Call	Requesting draft of report
7/17/2014	Marti Kopacz	Melissa Smiley - City of Detroit	Call	Requesting draft of report

Exhibit 3

Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
4/29/2014	Al Mink, Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Barbara Patek	Meeting	Debrief on meeting with Fire and Police Unions
4/30/2014	Al Mink, Bob Childree	John Hill CFO	Meeting	Discussed John Hill's vision for the Finance and Accounting function and the major issues he believes the Department faces
4/30/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Daniel Jerneycic - Ernst & Young	Meeting	10 Year Plan Development
5/1/2014	Al Mink, Bob Childree	John Naglick, Finance Director	Meeting	Issues facing the Finance department, specifically those departments reporting to John Hill. John walked us through his view of the status of each of the departments reporting to him.
5/2/2014	Michael Gaul, Kevin Barr	Kevin Hand, Chris Gannon and Glenn Kushiner - Conway Mackenzie	Meeting	General Restructuring and Reinvestment discussion/development
5/5/2014	Al Mink	Michael Jameson, Deputy Finance Director	Meeting	Meeting to discuss his views of the issues facing the departments reporting to John Hill.
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	Discussed finance department and begin to get into details. Discussed more specifics on each of the departments
5/5/2014	Al Mink	Glenn Kushiner, Conway, Chris Gannon, Conway	Meeting	Discussed their views of finance department and begin to get into details. Discussed more specifics on each of the departments
5/5/2014	Michael Gaul	Kevin Hand, Chris Gannon and Glenn Kushiner - Conway Mackenzie	Meeting	General Restructuring and Reinvestment discussion/development
5/6/2014	Al Mink, Bob Childree	Donald Settles, Risk Manager, Glenn Kushiner, Conway	Meeting	Overview and details of the Risk Management department. Discussed the existing structure, and restructuring alternatives being investigated including potentially outsourcing the Third party administration of Workers Comp and engaging a third party insurance policy to cover auto
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Glenn Kushiner	Meeting	Accepted reassessment plan, impact on forecasted revenues, and restructuring of the Assessors department
5/6/2014	Al Mink, Bob Childree	Gary Evanko, Chief Assessor	Meeting	Property tax process, organization, issues, problems
5/6/2014	Al Mink, Bob Childree	Glenn Kushiner and Chris Gannon - Conway Mackenzie	Meeting	DWSD, CFO restructuring, Plante Moran's role
5/7/2014	Michael Gaul, Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Fire and Rec Departments
5/7/2014	Kevin Barr	Chris Gannon and Emily Petrovski - Conway Mackenzie	Meeting	Ombudsperson and Mayors Office
5/7/2014	Al Mink, Bob Childree	Boysie Jackson, Director Purchasing and Glenn Kushiner - Conway Mackenzie	Meeting	Procurement processes, issues, contracts, personal services contracts, RFP process, people, POA, risks
5/7/2014	Al Mink, Bob Childree	Pam Scales, Budget Director and Glenn Kushiner	Meeting	Budget process, Staffing, organization, POA staffing, and issues
5/8/2014	Al Mink, Bob Childree	Boise Jackson purchase director, Glenn Kushiner	Meeting	Over view of the Purchasing department including restructuring initiatives, processing of contracts, approvals for expenditures
5/8/2014	Al Mink, Bob Childree	Glenn Kushner, Pam Scales, Budget Director	Meeting	the development of 2015 Budget submission to Council using the Budget in the plan of adjustment. Also discussed challenges in reporting against budget.
5/8/2014	Kevin Barr	Chris Gannon and Danielle Iafrate - Conway Mackenzie	Meeting	Police Department
5/8/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Blight
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	General Services Department
5/8/2014	Kevin Barr	Todd Eddy - Conway Mackenzie	Meeting	36th District Court and DDOT
5/8/2014	Al Mink, Bob Childree	Glenn Kushiner - Conway Mackenzie	Meeting	Conway's role, scope of work, issues
5/8/2014	Al Mink, Bob Childree	Eric Higgs	Meeting	Financial reporting, CAFR, Reporting post bankruptcy reconciliations, staffing issues
5/8/2014	Al Mink, Bob Childree	Leighton Duncan and Glenn Kushiner	Meeting	Treasury functions, revenue collections outsourcing, organization, retention,
5/8/2014	Al Mink, Bob Childree	Mark Lockridge, Auditor General	Meeting	audits, internal controls, findings, organization, functions, issues
5/8/2014	Michael Gaul	Juan Santambrogio - Ernst & Young	Call	10 year - 40 Year plan
5/9/2014	Al Mink, Bob Childree	Leighton Duncan, Project Manager, Treasury, and Glenn Kushner.	Meeting	Discussed status of Treasury department functions and restructuring.
5/9/2014	Al Mink, Bob Childree	Glenn Kushner	Meeting	Discussed Conway activities; restructuring activities in departments and helping to implement changes.
5/9/2014	Al Mink, Bob Childree	Eric Higgs, Chief accounting officer, Glen Kushner.	Meeting	Discuss the current activities of the Accounting department and the issues.
5/9/2014	Al Mink, Bob Childree	Mark Lockridge, Auditor General, Glenn Kushiner	Meeting	Mark is going to provide us with audit reports on the Accounting and finance functions he has conducted in recent years.
5/9/2014	Kevin Barr	Chris Gannon - Conway Mackenzie	Call	Planning & Development, City Council and Building & License
5/9/2014	Kevin Barr	Kevin Hand - Conway Mackenzie	Call	Airport
5/9/2014	Kevin Barr	Danielle Iafrate - Conway Mackenzie	Call	Law
5/9/2014	Al Mink, Bob Childree	Sonya Mays, Dan Sutton, Nakia Johnson, Chris Gannon - Conway Mackenzie	Meeting	Grants Management...projects, plans, timeframes,
5/12/2014	Al Mink	Glenn Kushiner	Meeting	Review global 10 year forecast spread sheets and then focused on the restructuring spreadsheets for each of the finance and accounting functions

Exhibit 3

Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
5/12/2014	Al Mink	Michael Swartz, Plante Moran, Adam Rujan, Plante Moran, Laurie Zyla, Plant Moran, Glenn Kushiner, Chris Gannon, Sonya Mays Nakia Johnson	Meeting	Discuss status of new ERP proposal. Discuss with Michael Swartz, Plante Moran's contribution to the Year End Closing process. Discuss issues with doing monthly financial statements.
5/12/2014	Al Mink	Glenn Kushiner, Beth Niblock, CIO and Charles Dodd.	Meeting	Overview of current status of Department and the vision for implementation of an integrated ERP System.
5/13/2014	Al Mink	Glenn Kushiner	Meeting	10 year reorganization budget spreadsheets for the finance and accounting departments.
5/13/2014	Al Mink, Bob Childree	Chris Gannon, Sonya Mays, Nakia Johnson	Meeting	Development of the new Grants administration department.
5/13/2014	Al Mink	Glenn Kushiner	Meeting	Review organization Chart.
5/14/2014	Al Mink	Glenn Kushiner	Meeting	Review of Finance and Accounting pre-reorganization organization charts
5/14/2014	Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Juan Santambrogio, Gaurav Malhotra and Daniel Jerneycic - Ernst & Young	Call	Pension and OPEB Conversation
5/19/2014	Al Mink	Glenn Kushiner	Meeting	Meeting to discuss centralization of Accounting and Finance
5/19/2014	Al Mink	Dan Jerneycic, an Juan Santambrogio E&Y	Meeting	Discuss E&Y Cash Flows and Cash flow procedures. Also discuss EM reports and discuss post emergence monthly reporting
5/19/2014	Al Mink, Kevin Barr	Juan Santambrogio, Daniel Jerneycic and Nick Bugden - Ernst & Young	Meeting	Cash Forecasting
5/20/2014	Al Mink	Glenn Kushiner	Meeting	Review Data Requests
5/21/2014	Al Mink, Bob Childree	Tanya Stoudemire, Income Tax Manager and Glenn Kushiner	Meeting	Over view of the Income Tax Department, initiatives and plans for Restructuring
5/21/2014	Al Mink	Niki Timmons	Meeting	Review process for submitting and following up on past due real real-estate submissions to Wayne County
5/21/2014	Al Mink, Bob Childree, Kevin Barr	Juan Santambrogio and Daniel Jerneycic - Ernst & Young	Meeting	Cash Forecast vs. 10 Year Plan variance
5/21/2014	Bob Childree, Michael Gaul	Executive Director of GRS/PFRS, RS legal counsel, RS actuary, and RS financial advisor	Meeting	POA treatment re: Retirement Systems
5/27/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss Payroll and Governance
5/28/2014	Al Mink	Joel Kowalski	Meeting	CAFR audit. Review with him the 2012 management letter from KPMG
5/28/2014	Michael Gaul, Kevin Barr	Juan Santambrogio and Nick Bugden - Ernst & Young	Call	Detailed 10 Year-40 Year Working Model Review
5/28/2014	Kevin Barr	Kevin Hand and Glenn Kushiner - Conway Mackenzie	Call	Deferred Reinvestments
5/29/2014	Al Mink	Glenn Kushiner	Call	Conference call to discuss payroll
5/30/2014	Michael Gaul	Jones Day personnel	Call	Bankruptcy discovery transmission issues
5/31/2014	Michael Gaul	Brian Leatherman - Jones Day	Call	Bankruptcy discovery transmission issues
6/2/2014	Al Mink, Bob Childree	Niki Timmons, Leighton Duncan, Glenn Kushiner	Meeting	Discuss Wayne County payments
6/2/2014	Al Mink, Bob Childree	Kyle Herman, Miller BuckfireKarl Sankey (not present), Leighton Duncan, Niki, Jeff Addison- Conway Mackenzie, Peter Baywold-Conway Mackenzie	Meeting	Wayne County Property tax issues, process
6/3/2014	Al Mink, Bob Childree	Ursula Holland, Michael Hall, Glenn Kushiner	Meeting	Payroll systems and procedures
6/3/2014	Al Mink	Devin Patel, Jeffrey Addison from Conway, Geoffrey Stewart, Chris DiPompeo, Jones Day, Sheshian Swamathan, E&Y	Meeting	Discuss Cash Reporting
6/3/2014	Al Mink, Bob Childree	Mike Hall, Ursula Holland , Glenn Kushiner Conway Mackenzie	Meeting	Payroll
6/3/2014	Al Mink, Bob Childree	Jeff Addison, Devin Patel - Conway Mackenzie, Jeff Stewart, Dan Jerneycic - E&Y	Meeting	Cash flows, reconciliations, disbursements, A/P , encumbrances
6/3/2014	Michael Gaul	Representatives of Detroit Land Bank Authority	Call	Required funding for Blight remediation
6/4/2014	Al Mink, Bob Childree	John Hill, John Naglick and Glenn Kushiner	Meeting	Finance Reorganization, CFO position, ERP, Payroll, monthly reporting
6/4/2014	Al Mink, Bob Childree	Lena Willis, Boysie's deputy	Meeting	Encumbrances, A/P
6/4/2014	Michael Gaul	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/5/2014	Al Mink	John Naglick, Glenn Kushiner	Meeting	Continue discussion on finance and accounting issues
6/5/2014	Al Mink	Larry King, Kevin Hand	Meeting	Work being performed on Accounting Organization
6/5/2014	Al Mink, Bob Childree	Larry King and Chris Gannon - Conway Mackenzie	Meeting	Finance reorganization, Job descriptions, Hr
6/5/2014	Al Mink, Bob Childree	John Naglick and Glenn Kushiner	Meeting	Financial reporting.
6/6/2014	Michael Gaul, Kevin Barr	Derrick Puliam - Alpha Lit	Call	Bankruptcy discovery transmission issues
6/10/2014	Bob Childree, Michael Gaul, Brian Gleason	Robert Gordon, Joe Turner, Michael , Ron King	Call	Retirement systems
6/10/2014	Bob Childree, Michael Gaul, Brian Gleason, Kevin Barr	Evan Miller, Alexander Blanchard - Jones Day	Call	Pensions and OPEB
6/10/2014	Michael Gaul	RS legal counsel	Call	Pension governance
6/11/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Meeting	Fire Dept. Review
6/12/2014	Michael Gaul	Tina Tolliver - DPD	Meeting	DPD RRI's
6/13/2014	Kevin Barr	Nick Bugden and Juan Santambrogio - Ernst & Young	Call	10 Year model
6/13/2014	Michael Gaul	Erica Raleigh - Data Driven Detroit	Meeting	Data gathering re: Detroit

Exhibit 3				
Date	Phoenix Attendees	Attendees	Type of Meeting	Topics
6/17/2014	Kevin Barr	Kevin Hand and Emily Petrovski - Conway Mackenzie	Call	Fire Dept. Review
6/26/2014	Kevin Barr	Daniel Jerneycic and Shavi Sarna - Ernst & Young	Call	Utilities

Exhibit 4

Phoenix Management Services, Inc.
In re: City of Detroit, Michigan, Debtor
Case No. 13-53846
Open Information Requests as of July 18, 2014

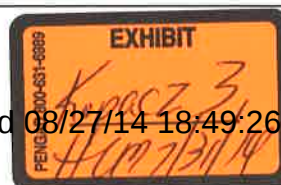
REQUESTED PARTY	DATE REQUESTED	DATA REQUESTED	STATUS
<u>OUTSTANDING REQUESTS</u>			
Jones Day	6/10/14	Any stochastic or sensitivity analyses undertaken by City advisors or advisors to the Retirement Systems relevant to use of a 6.75% investment return assumption for GRS.	
Ernst & Young	5/21/14	Comparison of the Revenue and Expenditures as reported on E&Y's Actual Cash Flow reports for the fiscal years 2012 and 2013 against the completed CAFR	
Ernst & Young	5/29/14	Pension: All pension plan sensitivity analyses; including, those that look at how changes in investment returns impact unfunded level	Received for PFRS; not received for GRS
Ernst & Young	5/29/14	Pension: Sensitivities on how different pension return rates impact the pension restoration provisions in the plan If none exist, please run Pensions UAAL calculation at 3%, 5%, 6%, and 8% assumed rate of return	Received for PFRS; not received for GRS
Ernst & Young	5/30/14	Actuary reports/analysis that provide detailed support behind yearly contributions to pensions for active employees in the 40 Year Plan	
Ernst & Young	5/29/14	Modified version of 10 Year Plan that fully integrates CM's Restructuring Initiatives within the departmental budgets – including the department-level detail of Restructuring deferrals	

<u>REQUESTED PARTY</u>	<u>DATE REQUESTED</u>	<u>DATA REQUESTED</u>	<u>STATUS</u>
Ernst & Young	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Conway MacKenzie	5/22/14	Reconciliation of 10 Year Plan and City's Triennial Budget	
Conway MacKenzie	5/27/14	Status of Fox Lawson review of White Book; anticipated changes to pay grades and classification post-petition; estimated Plan impact of said changes	
Conway MacKenzie	5/27/14	Total budget - by line item - for each department in Finance, Accounting and IT if Centralized Governance was approved. How much City wide the ten year plan envisions spending on IT, Accounting and Finance?	
Conway MacKenzie	6/6/14	Detail of estimated post-BK professional fees (Jones Day, E&Y, AND CM) in POA forecasts	
Ernst & Young/CM	7/9/14	City employee headcount by department- as of 6/30/14; gross payroll cost (excluding OT) for FYE 6/30/14; annualized gross payroll run rate (excl. OT) as of 6/30/14	

Exhibit C

In re City of Detroit
Documents Provided to Phoenix by the City or its Advisors

File Name	Begbates	Endbates
2013 settlement report 042314.pdf	POA00188906	POA00188908
settlement report 2009-2012.pdf	POA00189619	POA00189630
36d_restructuringinitiativesummary_05-16-2014.xls>	POA00258007	POA00258007
aglig_restructuringinitiativesummary_05.15.14.xls>	POA00258008	POA00258008
airport_restructuringinitiativesummary_05.15.14.xls>	POA00258009	POA00258009
blight_restructuringinitiativesummary_05.15.14.xls>	POA00258010	POA00258010
bseed_restructuringinitiativesummary_05.20.14.xls>	POA00258011	POA00258011
bza_restructuringinitiativesummary_05.19.14.xls>	POA00258012	POA00258012
city council_restructuringinitiativesummary_05.15.14.xls>	POA00258013	POA00258013
cityclerk_restructuringinitiativesummary_05.15.14.xls>	POA00258014	POA00258014
dah_restructuringinitiativesummary_05.15.14.xls>	POA00258015	POA00258015
ddot_restructuringinitiativesummary_05.15.2014.xls>	POA00258016	POA00258016
dfd_restructuringinitiativesummary_05.15.14.xls>	POA00258017	POA00258017
dhwp_restructuringinitiativesummary_05.15.14.xls>	POA00258018	POA00258018
dpd_restructuringinitiativesummary_05.15.14.xls>	POA00258019	POA00258019
dpwd_restructuringinitiativesummary_05.15.14.xls>	POA00258020	POA00258020
elections_restructuringinitiativesummary_05.15.14.xls>	POA00258021	POA00258021
finance_restructuringinitiativesummary_05.15.14.xls>	POA00258022	POA00258022
gsd_restructuringinitiativesummary_05.14.2014.xls>	POA00258023	POA00258023
hr_restructuringinitiativesummary_05.15.14.xls>	POA00258024	POA00258024
humanrights_restructuringinitiativesummary_05.15.14.xls>	POA00258025	POA00258025
law_restructuringinitiativesummary_05.15.14.xls>	POA00258026	POA00258026
lr_restructuringinitiativesummary_05.15.14.xls>	POA00258027	POA00258027
mayorsoffice_restructuringinitiativesummary_05.15.14.xls>	POA00258028	POA00258028
ombudsman_restructuringinitiativesummary_05.15.14.xls>	POA00258029	POA00258029
parking_restructuringinitiativesummary_05.15.14.xls>	POA00258030	POA00258030
pdd_restructuringinitiativesummary_05.15.14.xls>	POA00258031	POA00258031
recreation_restructuringinitiativesummary_05.15.14.xls>	POA00258032	POA00258032
11.14.13 treasury findings and recommendations.pdf	POA00261020	POA00261052
238-mi-det-dor-pfr-071912.doc	POA00261053	POA00261079
casino revenue analysis fy 2007-2008.xls	POA00261080	POA00261080
casino revenue analysis fy 2008-2009.xls	POA00261081	POA00261081
casino revenue analysis fy 2009-2010.xls	POA00261082	POA00261082
casino revenue analysis fy 2010-2011.xls	POA00261083	POA00261083
casino revenue analysis fy 2011-2012_3.xls	POA00261084	POA00261084
casino revenue analysis fy 2012-2013.xls	POA00261085	POA00261085
casino revenue analysis fy 2013-2014.xls	POA00261086	POA00261086
cityofdetroit_financebudgetitsfies.pdf	POA00261087	POA00261087
detroit application list.xlsx	POA00261088	POA00261088
draft cod hr technology assessment fv_12.30.13 final.pdf	POA00261089	POA00261133
finance_assessment_cash_receipts_07-2008_06-2011.pdf	POA00261134	POA00261152
finance_assessment_performance_07-2008_06-2011.pdf	POA00261153	POA00261218
finance_purchasing_performance_07-2007-03-2010.pdf	POA00261219	POA00261264
finance_treasury_follow-up_10-14-11.pdf	POA00261265	POA00261289
finance_treasury_performance_04-2007-03-2009.pdf	POA00261290	POA00261352
health.docx	POA00261353	POA00261353
hr org (payroll processing).pdf	POA00261354	POA00261354
income_tax_2007-2009.pdf	POA00261355	POA00261391
its 2014 organization chart.pdf	POA00261392	POA00261395
municipalparking.pdf	POA00261396	POA00261400
planofadjustmentmemos_part1.pdf	POA00261401	POA00261422
psc data as of 5.20.14 -finance dept.pdf	POA00261423	POA00261423
risk management org chart 120712.vsd	POA00261424	POA00261424
stcminutes8april2014_453367_7.pdf	POA00261425	POA00261433
updateschedule.docx	POA00261434	POA00261434
2012 DSA bonds amort (unprotected).pdf	POA00261435	POA00261437
BAIRD - Detroit Debt Book 051911.xls	POA00261438	POA00261438
Capital lease schedule (unsecured).pdf	POA00261439	POA00261439
Copy of 10yr vs 40 yr Plan Revenue Variance 5 14 14_ey response.xlsx	POA00261440	POA00261440
DSA bond set-aside schedule (unprotected).pdf	POA00261441	POA00261442
FinanceDept - Current Functions .pdf	POA00261443	POA00261468
LTGO Bonds.xls	POA00261469	POA00261469
LTGO debt service schedule (unprotected).pdf	POA00261470	POA00261470
POC debt service schedule (unprotected).pdf	POA00261471	POA00261472
POC Debt.xls	POA00261473	POA00261473
UTGO Bonds.xls	POA00261474	POA00261474
UTGO debt service schedule (unprotected).pdf	POA00261475	POA00261475
2013 IAFF News (SAFER).pdf	POA00261476	POA00261477
Detroit income tax forecast information 2013-08-09.docx	POA00261478	POA00261480
DPD Grant Projection Summary.xlsx	POA00261481	POA00261481
Financial Advisory Board Agenda and related documents.pdf	POA00261482	POA00261492
QUEST Income Tax Detail Baseline and R.xlsx	POA00261493	POA00261493
QUEST Property Tax Detail Baseline and R.xlsx	POA00261494	POA00261494



In re City of Detroit
Documents Provided to Phoenix by the City or its Advisors

File Name	Begbates	Endbates
SEMCOG 2040 Forecast Summary 4-2012.pdf	POA00261495	POA00261557
SEMCOG Population Estimates.xlsx	POA00261558	POA00261558
BSEED Memo.pdf	POA00261559	POA00261560
Department of Administrative Hearings Memo.pdf	POA00261561	POA00261562
Fire Department Memo.pdf	POA00261563	POA00261564
10 year forecast 2014-03-31 vDS.xlsx	POA00261565	POA00261565
10 year forecast 2014-04-16 vDS.xlsx	POA00261566	POA00261566
10 year forecast 2014-04-25 vDS.xlsx	POA00261567	POA00261567
10 year forecast 2014-05-05 vDS.xlsx	POA00261568	POA00261568
2011 L-4037 - Ad Valorem and Special Acts - STC Assessment Roll Certification (Board of Review).pdf	POA00261569	POA00261570
2012 L-4037 Warrant (Ad Valorem) - STC Assessment Roll Certification (Board of Review) with Supporting Documents.pdf	POA00261571	POA00261577
2013 L-4037 Warrant (Ad Valorem) - STC Assessment Roll Certification (Board of Review).pdf	POA00261578	POA00261579
2013 Long term budget outlook inflation projections 2013-2088.pdf	POA00261580	POA00261581
40 year forecast 2014-05-05 vDS.xlsx	POA00261582	POA00261582
BEA Data -- GDP Inflation 1992 2012.pdf	POA00261583	POA00261583
Census On the Map data Detroit worker flow 2002 2012.pdf	POA00261584	POA00261584
Daily Cash Pack - 2014-5-2.pdf	POA00261585	POA00261590
Data Sources.pdf	POA00261591	POA00261592
FY14 State Revenue Sharing.pdf	POA00261593	POA00261593
FY15 State Revenue Sharing.pdf	POA00261594	POA00261594
Income Tax Calculations.pdf	POA00261595	POA00261596
Major Tax Payers (commercial_and_industrial).pdf	POA00261597	POA00261598
MGCBS Casino Adjusted Gross Receipts.pdf	POA00261599	POA00261599
MI Economic_and_Revenue Forecast Presentation_FINAL_051413.pdf	POA00261600	POA00261649
Property Tax Calculations.pdf	POA00261650	POA00261650
Property Tax Estimating Methodology v1.pdf	POA00261651	POA00261651
Ren. Zone Taxable Value.pdf	POA00261652	POA00261652
Sales and Charges for Services.xlsx	POA00261653	POA00261653
SFA Economic Outlook May 2013.pdf	POA00261654	POA00261723
Ten-Year Financials (combined)_5.5.14 filing.xlsx	POA00261724	POA00261724
US Bureau of Labor Statistics LAUS MI Detroit 1990 - 2013.pdf	POA00261725	POA00261725
0a - POA 10yr_5.5.2014.pdf	POA00275421	POA00275502
0b - POA 40yr_5.5.2014.pdf	POA00275503	POA00275511
2011 L-4037 - Ad Valorem and Special Acts - STC Assessment Roll Certification (Board of Review).pdf	POA00275512	POA00275513
2012 L-4037 Warrant (Ad Valorem) - STC Assessment Roll Certification (Board of Review) with Supporting Documents.pdf	POA00275514	POA00275520
2013 L-4037 Warrant (Ad Valorem) - STC Assessment Roll Certification (Board of Review).pdf	POA00275521	POA00275522
Budget Dept Ad Valorem Tax Levies Rates.pdf	POA00275523	POA00275523
Changes to Detroit Property Tax Forecasts 11-18-13.docx	POA00275524	POA00275524
Changes to Detroit Property Tax Forecasts 2-24-14.docx	POA00275525	POA00275526
Data Sources.xlsx	POA00275527	POA00275527
Detroit Prop Tax Collection Rates.pdf	POA00275528	POA00275533
FY13 Wayne County Revolving Fund Settlement.xlsx	POA00275534	POA00275534
Major Tax Payers (commercial & industrial).pdf	POA00275535	POA00275536
Property Tax Estimating Methodology v1.docx	POA00275537	POA00275537
Property Tax Revenue Calculations.xlsx	POA00275538	POA00275538
Ren. Zone Taxable Value.xlsx	POA00275539	POA00275539
10.a - Purchased services, payroll processing.pdf	POA00275540	POA00275584
10.b - Purchased services, benefits processing II.pdf	POA00275585	POA00275589
10.b - Purchased services, benefits processing.pdf	POA00275590	POA00275610
10.c - Purchased services, MI Department of Corrections.pdf	POA00275611	POA00275614
10.d - Solid Waste Outsourcing.pdf	POA00275615	POA00275615
10.e - Contributions to non-enterprise funds.pdf	POA00275616	POA00275616
10.f - 10 year DDOT subsidy projection.xlsx	POA00275617	POA00275617
10.h - FY 2008 to 2013 Actuals.xlsx	POA00275618	POA00275618
10.i - Emergency Manager Order 6, Approval of Initial Funding Agreement for the PLA.pdf	POA00275619	POA00275620
Active Pension & Future Retiree OPEB Plan.xlsx	POA00275621	POA00275621
11.i - Swap settlement agreement.pdf	POA00275622	POA00275646
2013 Long term budget outlook inflation projections 2013-2088.pdf	POA00275647	POA00275648
BEA Data -- GDP Inflation 1992 2012.pdf	POA00275649	POA00275649
Detroit Retirees - stabilization plus at 105pct FPL - 05 01 2014 jms.xlsm	POA00275650	POA00275650
40 Year Revenue Projections.xlsx	POA00275651	POA00275651
40 Yr Projections Revenue and Dept Summary Overview 1.8.2014.docx	POA00275652	POA00275654
CBO 2013-02-Economic Projections (Prop Taxes).xls	POA00275655	POA00275655
Metro Populations (30 Years).xlsx	POA00275656	POA00275656
QUEST Revenue Discussion Items 1.11.2014.docx	POA00275657	POA00275660
Hypothetical Art Proceeds.pdf	POA00275661	POA00275661
State Settlement PV Calculation.pdf	POA00275662	POA00275669
8.d - Milliman report, GRS (no settlement).pdf	POA00275670	POA00275690
8.e - Milliman report, PFRS (no settlement).pdf	POA00275691	POA00275710
ltr04_DGRS_70%yr9_6.75%-4.5%red-III.pdf	POA00275711	POA00275734
ltr04_DPFRS_6.75%_55%COLared-4scenarios.pdf	POA00275735	POA00275756
Municipal Bond Market Commentary 2013-03-03 - RW Baird.pdf	POA00275757	POA00275766
DWSD pro fee allocation v1.pdf	POA00275767	POA00275767

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Documents Provided to Phoenix by the City or Its Advisors

File Name	Begbates	Endbates
DWSD Reimbursements.xlsx	POA00275768	POA00275768
ltr04_DGRS_70%yr9_6.75%-4.5%red-III.pdf	POA00275769	POA00275792
PFRS & GRS UAAL Amort.xlsx	POA00275793	POA00275793
GRS 74rd actuary report (final).pdf	POA00275794	POA00275846
Other Reimbursements (POC & Pension).xlsx	POA00275847	POA00275847
2013 Long term budget outlook inflation projections 2013-2088.pdf	POA00275848	POA00275849
BEA Data -- GDP Inflation 1992 2012.pdf	POA00275850	POA00275850
Census On the Map data Detroit worker flow 2002 2012.pdf	POA00275851	POA00275851
Detroit income tax forecast information 2013-08-09.docx	POA00275852	POA00275854
Income Tax Revenue Calculations.xlsx	POA00275855	POA00275855
MI Economic & Revenue Forecast Presentation_FINAL_051413 (pg 17).ppt	POA00275856	POA00275895
Object 1.xls	POA00275896	POA00275896
Object 10.xls	POA00275897	POA00275897
Object 11.xls	POA00275898	POA00275898
Object 12.xls	POA00275899	POA00275899
Object 13.xls	POA00275900	POA00275900
Object 14.xls	POA00275901	POA00275901
Object 15.xls	POA00275902	POA00275902
Object 16.xls	POA00275903	POA00275903
Object 17.xls	POA00275904	POA00275904
Object 18.xls	POA00275905	POA00275905
Object 19.xls	POA00275906	POA00275906
Object 2.xls	POA00275907	POA00275907
Object 20.xls	POA00275908	POA00275908
Object 21.xls	POA00275909	POA00275909
Object 22.xls	POA00275910	POA00275910
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Object 24.xls	POA00275912	POA00275912
Object 25.xls	POA00275913	POA00275913
Object 26.xls	POA00275914	POA00275914
Object 27.xls	POA00275915	POA00275915
Object 28.xls	POA00275916	POA00275916
Object 29.xls	POA00275917	POA00275917
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Object 30.xls	POA00275919	POA00275919
Object 31.xls	POA00275920	POA00275920
Object 32.xls	POA00275921	POA00275921
Object 33.xls	POA00275922	POA00275922
Object 4.xls	POA00275923	POA00275923
Object 5.xls	POA00275924	POA00275924
Object 6.xls	POA00275925	POA00275925
Object 7.xls	POA00275926	POA00275926
Object 8.xls	POA00275927	POA00275927
Object 9.xls	POA00275928	POA00275928
MI Economic & Revenue Forecast Presentation_FINAL_051413 (pg 29).pdf	POA00275929	POA00275978
SEMC0G 2040 Forecast Summary 4-2012.pdf	POA00275979	POA00276041
SEMC0G Population Estimates.xlsx	POA00276042	POA00276042
SFA Economic Outlook May 2013 (pg 30).pdf	POA00276043	POA00276112
US Bureau of Labor Statistics LAUS MI Detroit 1990 - 2013.pdf	POA00276113	POA00276113
MGC B Casino Adjusted Gross Receipts.xlsx	POA00276114	POA00276114
FY14 State Revenue Sharing.pdf	POA00276115	POA00276115
FY15 State Revenue Sharing.pdf	POA00276116	POA00276116
SEMC0G 2040 Forecast Summary 4-2012.pdf	POA00276117	POA00276179
SEMC0G Population Estimates.xlsx	POA00276180	POA00276180
ST Rev Sharing - Detroit Proj Thru FY 25 5 23 13.pdf	POA00276181	POA00276182
2013 IAFF News (SAFER).pdf	POA00276183	POA00276184
DPD Grant Projection Summary.xlsx	POA00276185	POA00276185
Vehicle Fund & UTGO.xlsx	POA00276186	POA00276186
Sales and Charges fo Services.xlsx	POA00276187	POA00276187
Description of Estimating Methodology 6-6-13.docx	POA00276188	POA00276193
Detroit Tax Forecast Information 7-24-13.docx	POA00276194	POA00276195
6.b - June 2012-October 2013 monthly headcount by department.pdf	POA00276196	POA00276196
6.c - Public safety and DDOT headcount ramp-up projection.pdf	POA00276197	POA00276197
6.d - Average salary by department.pdf	POA00276198	POA00276198
6.f - Estimated fringe rates by funding group.pdf	POA00276199	POA00276199
Salary, Headcount and Ramp-Up Data.xlsx	POA00276200	POA00276200
7.b - Milliman report, active healthcare.pdf	POA00276201	POA00276211
7.c - Milliman report, retiree healthcare.pdf	POA00276212	POA00276250
7.d - FY13 healthcare by funding group.pdf	POA00276251	POA00276251
8.b - Milliman report, GRS.pdf	POA00276252	POA00276258
8.c - Milliman report, PFRS.pdf	POA00276259	POA00276265
Pension 10 Year Summary.pdf	POA00276266	POA00276266
9.a - Baird, LTGO debt service.pdf	POA00276267	POA00276271

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Documents Provided to Phoenix by the City or its Advisors

File Name	Begbates	Endbates
BAIRD - Detroit Debt Book 051911.xls	POA00276272	POA00276272
9 d - Baird, POC debt service.pdf	POA00276273	POA00276274
9 e - POC allocation.pdf	POA00276275	POA00276275
9 f - Wolinski and Co. CPA, POC allocation memo.doc	POA00276276	POA00276296
Object 1.xls	POA00276297	POA00276297
Object 10.xls	POA00276298	POA00276298
Object 11.xls	POA00276299	POA00276299
Object 12.xls	POA00276300	POA00276300
Object 13.xls	POA00276301	POA00276301
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Object 15.xls	POA00276303	POA00276303
Object 16.xls	POA00276304	POA00276304
Object 17.xls	POA00276305	POA00276305
Object 18.xls	POA00276306	POA00276306
Object 19.xls	POA00276307	POA00276307
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Object 3.xls	POA00276309	POA00276309
Object 4.xls	POA00276310	POA00276310
Object 5.xls	POA00276311	POA00276311
Object 6.xls	POA00276312	POA00276312
Object 7.xls	POA00276313	POA00276313
Object 8.xls	POA00276314	POA00276314
Object 9.xls	POA00276315	POA00276315
POC & SWAP 10 Year Summary.pdf	POA00276316	POA00276316
11.m - Post-petition financing - Bond Purchase Agreement.pdf	POA00276317	POA00276343
11.n - Post-petition financing - Trust Indenture.pdf	POA00276344	POA00276405
QOL & Post-Petition Financing.xlsx	POA00276406	POA00276406
9.b - Baird, UTGO debt service.pdf	POA00276407	POA00276412
fab - march 18 2014 proposed meeting minutes final sp.pdf	POA00315158	POA00315159
fab agenda march 18, 2014 revised final (1).pdf	POA00315160	POA00315160
bratton group recommendations.docx	POA00318251	POA00318265
city of detroit - it strategy presentationv7d.ppt	POA00318266	POA00318306
ddot atu & afscme savings summary.xlsx	POA00318307	POA00318307
dpd plan of action.pdf	POA00318308	POA00318415
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motorola vs sungard 22oct13.docx	POA00318417	POA00318423
police - it system discussion v 4 7 2013.pptx	POA00318424	POA00318451
various union labor costing analyses.xlsx	POA00318452	POA00318452
white book draft (2013-2014) revised to budget on 6-25-13 - sortable.xls	POA00318453	POA00318453
01-07-13 General Manager-Finance (Grants).pdf	POA00318454	POA00318455
01-08-01 Department Manager II .pdf	POA00318456	POA00318459
01-09-01 Department Manager I.pdf	POA00318460	POA00318463
01-10-77 Assistant Director of W&S - Financial Operations.pdf	POA00318464	POA00318465
05-10-11 Purchases Agent I.pdf	POA00318466	POA00318466
06-10-45 Assessors Board Coordinator.pdf	POA00318467	POA00318468
09-91-40 Senior Income Tax Investigator.pdf	POA00318469	POA00318470
11-41-41 prin city planner-Research.pdf	POA00318471	POA00318472
11-42-41 PRIN CITY PLANNER- DESIGN.pdf	POA00318473	POA00318474
Accountant I 04-20-22.doc	POA00318475	POA00318476
Accountant I- Public Housing 55-13-01.doc	POA00318477	POA00318478
Administrative Assistant II Various Department 01-22-35 thru 01-22-57 & 55-20-20.doc	POA00318479	POA00318481
Administrative Assistant III-Various Dept 01-20-59,68, 71,72,74,77, 78,80.doc	POA00318482	POA00318483
Administrative Budget Analyst Planning and Program 04-12-71.doc	POA00318484	POA00318486
Administrative Specialist I 01-22-10.doc	POA00318487	POA00318489
Administrative Supervisor of License & Permits 01-20-53.doc	POA00318490	POA00318491
Administrative_Specialist I 01-22-10.pdf	POA00318492	POA00318494
Appraisal Technician I 09-33-20.doc	POA00318495	POA00318496
Appraisal Technician II 09-33-40.doc	POA00318497	POA00318498
Appraiser I 06-10-21.doc	POA00318499	POA00318501
Appraiser II 06-10-31.doc	POA00318502	POA00318504
Appraiser III 06-10-40.doc	POA00318505	POA00318507
Assessment Technician 09-33-21.doc	POA00318508	POA00318509
Assessment Technician Trainee 09-33-11.doc	POA00318510	POA00318512
Assistant City Bond Accountant 04-20-47.doc	POA00318513	POA00318515
Assistant Storekeeper Public Housing 55-19-01.doc	POA00318516	POA00318517
Audit Manager 04-10-52.doc	POA00318518	POA00318519
Auditor 04-20-32.doc	POA00318520	POA00318521
BSE0002 - Revenue Collection Specialist.doc	POA00318522	POA00318523
Budget Administrator Public Housing 55-11-05.doc	POA00318524	POA00318525
Budget Manager I 04-12-60.doc	POA00318526	POA00318528
Budget Manager II 04-12-70.doc	POA00318529	POA00318531
Business Analyst 04-13-41.doc	POA00318532	POA00318534
Call Center Analysts 01-31-44.doc	POA00318535	POA00318536

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Documents Provided to Phoenix by the City or its Advisors

File Name	Begbates	Endbates
Chief Accounting Officer 01-01-36.doc	POA00318537	POA00318538
Clerk 01-20-21.doc	POA00318539	POA00318540
CLK0002 Office AssistantI .doc	POA00318541	POA00318542
Department General Manager 01-07-01.doc	POA00318543	POA00318545
Executive Budget Manager 04-12-75.doc	POA00318546	POA00318548
FIN0003- Sr. Clerk.doc	POA00318549	POA00318550
FIN0006 Field Collector.doc	POA00318551	POA00318552
FIN0011 Sr. Clerk.doc	POA00318553	POA00318554
Finanace Manager I 01-09-26.doc	POA00318555	POA00318557
Head Clerk 01-20-51.doc	POA00318558	POA00318558
Income Tax Investigator 09-91-30.doc	POA00318559	POA00318560
Manager I Purchasing.docx	POA00318561	POA00318563
Manager II Finance 01-08-22.doc	POA00318564	POA00318567
Materials Manager 05-10-53.doc	POA00318568	POA00318569
Office Assistant I (Typist) 01-31-11.doc	POA00318570	POA00318571
Office Assistant II (Typist) 01-31-21.doc	POA00318572	POA00318573
Office Management Assistant 01-92-10,11.doc	POA00318574	POA00318576
Personnel & Payroll Clerk 01-20-25.doc	POA00318577	POA00318577
Principal Accountant 04-20-41.doc	POA00318578	POA00318579
Principal Clerk 01-20-41.doc	POA00318580	POA00318581
Principal Purchases Agent 05-10-41.doc	POA00318582	POA00318583
Purchases Agent I 05-10-11.doc	POA00318584	POA00318584
Purchases Agent II 05-10-21.doc	POA00318585	POA00318587
Purchases Agent III 05-10-31.doc	POA00318588	POA00318589
Purchasing Assistant 05-10-10 (1).doc	POA00318590	POA00318592
Purchasing Assistant 05-10-10 (2).doc	POA00318593	POA00318595
Purchasing Assistant 05-10-10.doc	POA00318596	POA00318598
Purchasing Manager 05-10-51.doc	POA00318599	POA00318601
Record Systems Specialist I 01-20-01.doc	POA00318602	POA00318603
Senior Accountant 04-20-31.doc	POA00318604	POA00318605
Senior Personnel & Payroll Clerk 01-20-39.doc	POA00318606	POA00318607
Senior Storekeeper 05-50-31.doc	POA00318608	POA00318609
Senior Voucher Audit Clerk 01-20-38.doc	POA00318610	POA00318611
Storekeeper 05-50-21.doc	POA00318612	POA00318613
Supervising Title Searcher 01-20-07.doc	POA00318614	POA00318615
Treasury Future Job Descriptions - Staffing Request.doc	POA00318616	POA00318642
Voucher Audit Clerk 01-20-26.doc	POA00318643	POA00318644
Workers' Comp Specialist 09-20-23.doc	POA00318645	POA00318646
Workers' Compensation Specialist 09-20-33.doc	POA00318647	POA00318648
scanned from a xerox multifunction device.pdf	POA00318653	POA00318667
2012-2014 atu div 26 contract proposals.pdf	POA00318755	POA00318765
2012-2014 bct (ddot) contract proposals.pdf	POA00318766	POA00318775
2012-2014 iuoe (ddot) contract proposals.pdf	POA00318776	POA00318781
2012-2014 sup ch dot foreman's assn contract proposals.pdf	POA00318782	POA00318791
2012-2014 teamsters (ddot) contract proposals.pdf	POA00318792	POA00318799
assmc cba.02.24.14.pdf	POA00318800	POA00318863
chi_1928660_2_detroit_summaries of city of detroit cbas.docx	POA00318864	POA00318867
iuoe 2013 - 2018 mous.pdf	POA00318868	POA00318872
iuoe local 324 (operating engineers) cba 2013-2018.pdf	POA00318873	POA00318956
iuoe local 324 (park management) cba 2013-2018.pdf	POA00318957	POA00319034
iuoe local 324 (principal clerks) cba 2013-2018.pdf	POA00319035	POA00319111
mou dot foremen assn ns proposals for orr to sign.pdf	POA00319112	POA00319121
poam cba (2013-2018).pdf	POA00319122	POA00319172
teamsters local 214 and dpd supplemental agreement 2013-2018.pdf	POA00319173	POA00319180
teamsters local 214 and dpw supplemental agreement 2013-2018.pdf	POA00319181	POA00319192
teamsters local 214 and gsd supplemental agreement 2013-2018.pdf	POA00319193	POA00319200
teamsters local 214 and municipal parking supplemental agreement 2013-2018.pdf	POA00319201	POA00319207
teamsters local 214 cba 2013-2018.pdf	POA00319208	POA00319275
20131207 - ltr12_dgrs_estbaselineliab_altrturns.pdf	POA00369543	POA00369546
actual monthly cash fy2012 and fy2013.xlsx	POA00369547	POA00369547
cityofdetroit_deferrals02112014.pdf	POA00369548	POA00369548
detroit property tax process - key dates 4-2-14.xlsx	POA00369549	POA00369549
psc data as of 5 21 14 - data for purchasing department - 05302014.xls>	POA00369550	POA00369550
Beth Niblock resume detroit.doc	POA00369551	POA00369553
Boysie Jackson Resume.pdf	POA00369554	POA00369556
DuncanResume2014.docx	POA00369557	POA00369560
Eric S. Higgs Resume 2013 COD_1.pdf	POA00369561	POA00369563
Evanko Resume.pdf	POA00369564	POA00369565
FY 2015 Comparision POA and Budget.pdf	POA00369566	POA00369566
JOHN HILL Resume 12-18-2012 Final_1.pdf	POA00369567	POA00369569
John Naglick 2014 Resume.pdf	POA00369570	POA00369572
Mike Jamison - Resume (1303).pdf	POA00369573	POA00369574
Resume_PCScales.docx	POA00369575	POA00369576

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Documents Provided to Phoenix by the City or its Advisors

File Name	Begbates	Endbates
bseed acct receivable review.pdf	POA00531247	POA00531265
city of detroit financial statements - draft - 5.30.14.pdf	POA00531266	POA00531512
model comparison memo draft 5-27-14.pdf	POA00531513	POA00531533
wayne county monthly delinquent tax settlement summary 06042014.xls>	POA00531534	POA00531534
model comparison memo draft 5-27-14.pdf	POA00535388	POA00535408
restructuring projects pdf	POA00539288	POA00539290
dfd model corrections 140613 restructuring and reinvestment initiatives.xls>	POA00556119	POA00556119
dpd - civilianization redeployment schedule v06.03.14.xls>	POA00556120	POA00556120
fy 2015-17 comparison poa and budget.pdf	POA00556121	POA00556123
incometaxar_oct212013.xlsx	POA00676470	POA00676470
cityofdet_restructuringprojects 06.16.14 risks opps.xlsx	POA00698773	POA00698773
copy of restoration_v22.pdf	POA00698774	POA00698774
poa 40yr_v11_no dpoa.pdf	POA00698775	POA00698785
assumptions and narrative for march 2014 budget to actual report 06092014.pdf	POA00700410	POA00700415
cfo project tracking_v10_6.5.xlsx	POA00700416	POA00700416
em quarterly update 4_15_14_final 4 15 14_2.pdf	POA00700417	POA00700433
fab budget to actual revenues and expenditures report march 2014 06092014 revised ii.pdf	POA00700434	POA00700434
fsa budget to actual revenues and expenditures report march 2014 new format for amended fsa 05072014 - snapshot revised - c.xls>	POA00700435	POA00700435
ltr05_dpfrs_6.75%_55%colared-fsin2033&2043.pdf	POA00700436	POA00700463
ltr06_dgrs_70%yr9_6.75%-4.5%red-v-net_admin.pdf	POA00700464	POA00700495
milliman e-mail on std dev of market returns.pdf	POA00700496	POA00700497
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pdd_restructuringinitiativesummary 04.11.14.xls>	POA00705381	POA00705381
recreation_restructuringinitiativesummary 04.11.14.xls>	POA00705382	POA00705382
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lai_3218164_1_pfrs component ii_final.pdf	POA00705501	POA00705615
lai_3218165_1_grs component i_final.pdf	POA00705616	POA00705666
lai_3218166_1_pfrs component i_final.pdf	POA00705667	POA00705725
10 year reinvestment.reorganization projection bridge.pdf	POA00706448	POA00706448
monthlyconsolidated10yeargeneralfundv06.30.14.pdf	POA00706449	POA00706518
poa 10yr_07.02.14.pdf	POA00706519	POA00706600
poa 40yr bridge_07.02.14.pdf	POA00706601	POA00706602
poa 40yr_07.02.14.pdf	POA00706603	POA00706611
36d_restructuringinitiativesummary 06.27.14.xls>	POA00706874	POA00706874
agig_restructuringinitiativesummary 06.27.14.xls>	POA00706875	POA00706875
airport_restructuringinitiativesummary 06.27.14.xls>	POA00706876	POA00706876
blight_restructuringinitiativesummary 06.27.14.xls>	POA00706877	POA00706877
bseed_restructuringinitiativesummary 06.27.14.xls>	POA00706878	POA00706878
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cityclerk_restructuringinitiativesummary 06.27.14.xls>	POA00706880	POA00706880
citycouncil_restructuringinitiativesummary 06.27.14.xls>	POA00706881	POA00706881
codcostsavewassoccost_07022014.pdf	POA00706882	POA00706884
codcostsavewassoccost_07082014.pdf	POA00706885	POA00706887
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dah_restructuringinitiativesummary 06.27.14.xls>	POA00706890	POA00706890
ddot_restructuringinitiativesummary 06.27.14.xls>	POA00706891	POA00706891
dfd_restructuringinitiativesummary 06.27.14.xls>	POA00706892	POA00706892
dhwp_restructuringinitiativesummary 06.27.14.xls>	POA00706893	POA00706893
dpgd_restructuringinitiativesummary 06.27.14.xls>	POA00706894	POA00706894

In re City of Detroit
Documents Provided to Phoenix by the City or its Advisors

File Name	Begbates	Endbates
dpwd_restructuringinitiativesummary 06.27.14.xls>	POA00706895	POA00706895
elections_restructuringinitiativesummary 06.27.14.xls>	POA00706896	POA00706896
finance_restructuringinitiativesummary 06.27.14.xls>	POA00706897	POA00706897
forecast_10-year_7 2 14.xlsx	POA00706898	POA00706898
gsd_restructuringinitiativesummary 06.27.14.xls>	POA00706899	POA00706899
hr_restructuringinitiativesummary 06.27.14.xls>	POA00706900	POA00706900
humanrights_restructuringinitiativesummary 06.27.14.xls>	POA00706901	POA00706901
law_restructuringinitiativesummary 06.27.14.xls>	POA00706902	POA00706902
lr_restructuringinitiativesummary 06.27.14.xls>	POA00706903	POA00706903
mayorsoffice_restructuringinitiativesummary 06.27.14.xls>	POA00706904	POA00706904
monthlyconsolidated10yeargeneralfundv06.27.14.xlsx	POA00706905	POA00706905
ombudsman_restructuringinitiativesummary 06.27.14.xls>	POA00706906	POA00706906
parking_restructuringinitiativesummary 06.27.14.xls>	POA00706907	POA00706907
parking_restructuringinitiativesummary 06.27.14[conflict].xls>	POA00706908	POA00706908
pdd_restructuringinitiativesummary 06.27.14.xls>	POA00706909	POA00706909
poa 40yr_07.02.14.xlsx	POA00706910	POA00706910
recreation_restructuringinitiativesummary 06.27.14.xls>	POA00706911	POA00706911
transmittal letter.pdf	POA00706912	POA00706912
transmittal letter.pdf	POA00706913	POA00706913
acods cba.pdf	POA00723317	POA00723389
afscme local 1206 cba.pdf	POA00723390	POA00723434
afscme local 1863 cba.pdf	POA00723435	POA00723465
afscme local 2394 cba.pdf	POA00723466	POA00723511
afscme local 542 cba.pdf	POA00723512	POA00723554
afscme local 6087 cba.pdf	POA00723555	POA00723599
afscme ns cba.pdf	POA00723600	POA00723645
saaa cba.pdf	POA00723646	POA00723723
seiu non-supervisory cba.pdf	POA00723724	POA00723773
seiu professional and technical cba.pdf	POA00723774	POA00723823
seiu supervisory cba.pdf	POA00723824	POA00723873
(dwsd) btc cba.pdf	POA00723881	POA00723946
(dwsd) btc reopener.pdf	POA00723947	POA00723958
(dwsd) iuoe local 324 reopener.pdf	POA00723959	POA00723972
(dwsd) swsca cba.pdf	POA00723973	POA00724023
(dwsd) teamsters local 214 cba.pdf	POA00724024	POA00724090
(dwsd) afscme local 2920 cba.pdf	POA00724091	POA00724179
(dwsd) uwa local 504 cba.pdf	POA00724180	POA00724237
(dwsd) uwa locals 488 and 531 cba.pdf	POA00724238	POA00724299
(dwsd) apci cba.pdf	POA00724300	POA00724358
(dwsd) iuoe local 324 cba.pdf	POA00724359	POA00724426
assmc cba.pdf	POA00724428	POA00724491
btc cba.pdf	POA00724492	POA00724557
dpcoa cba.pdf	POA00724558	POA00724589
dplsa cba.pdf	POA00724590	POA00724653
dplsa letter agreement.pdf	POA00724654	POA00724655
emsoa.pdf	POA00724656	POA00724695
iuoe local 324 (operating engineers) cba.pdf	POA00724696	POA00724781
iuoe local 324 (park management) cba.pdf	POA00724782	POA00724861
iuoe local 324 (principal clerks) cba.pdf	POA00724862	POA00724940
poam cba.pdf	POA00724941	POA00724991
teamsters local 214 and dpd supplement.pdf	POA00724992	POA00724999
teamsters local 214 and dpw supplement.pdf	POA00725000	POA00725011
teamsters local 214 and gsd supplement.pdf	POA00725012	POA00725019
teamsters local 214 and mpd supplement.pdf	POA00725020	POA00725026
teamsters local 214 cba.pdf	POA00725027	POA00725097
07 11 exit financing indicative term sheet.pdf	POA00725271	POA00725274
07 11 exit financing intro letter.pdf	POA00725275	POA00725277
bond purchase agreement for the series 2014 bonds, between the purchaser and the city dated april 8, 2014..pd	POA00725278	POA00725304
draft 07 09 dtw exit financing indicative term sheet.doc>	POA00725305	POA00725307
draft 07 09 exit financing intro letter.doc>	POA00725308	POA00725310
milliman letter dated july 9, 2014.pdl	POA00725311	POA00725330
trust indenture between the city and umb, as trustee..pdl	POA00725331	POA00725392
ami cba.pdf	POA00725658	POA00725705
ditia cba.pdf	POA00725706	POA00725776
(dwsd) btc foremen cba.pdf	POA00725777	POA00725818
cod 2012 audit je listing_1_1 with comments.xlsx	POA00725819	POA00725819
FY13 City of Detroit Financial Statements - FINAL	POA00726981	POA00727228

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN**

In re)	
)	
)	Chapter 9
CITY OF DETROIT, MICHIGAN)	
)	Case No.: 13-53846
Debtor.)	
)	Hon. Steven W. Rhodes
)	
)	
)	

CERTIFICATE OF SERVICE

I hereby certify that on August 27, 2014, I electronically filed the City's Opposition to Motion to Exclude Certain Of The Expert Opinions Of Martha Kopacz with the Clerk of the Court, which sends notice by operation of the Court's electronic filing service to all ECF participants registered to receive notice in this case.

Dated: August 27, 2014

/s/ Heather Lennox

Heather Lennox